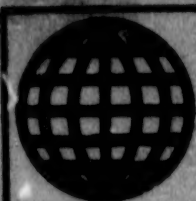


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28 SEPTEMBER 1990



FOREIGN
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JPRS Report

Soviet Union

Economic Affairs
TRANSITION TO A MARKET ECONOMY

Soviet Union

Economic Affairs

TRANSITION TO A MARKET ECONOMY

JPRS-UEA-90-034

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28 September 1990

904A0597A Moscow PEREKHOD K RYNKU in Russian 1990, Part I—pp 1-224, Part II—pp 1-167

[Proposal by a working group formed by joint decision of M. Gorbachev and B. Yeltsin: "Transition to a Market Economy: Concept and Program—Part I, Draft Legislation—Part II"; Moscow, August 1990, "Arkhangelskoye", 50,000 copies, 391 pages]

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PART I—CONCEPT AND PROGRAM

Section I. Concept of a Program for Transition to a Market Economy as a Basis for an Economic Union of Sovereign Republics.

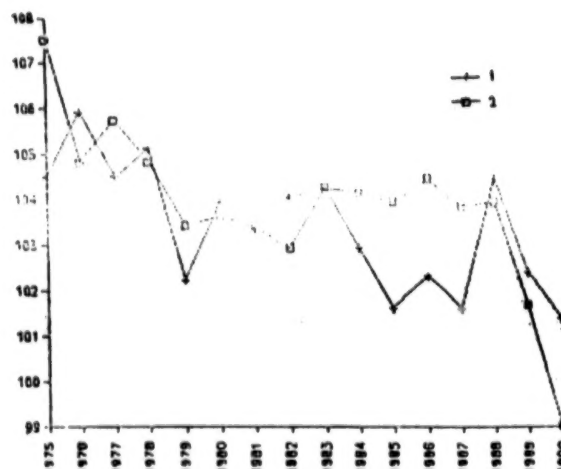
1. The Socioeconomic Situation

The Crisis of the System

The economic and political instability that the country is presently undergoing should not be viewed as an ordinary, although deep, crisis which may be surmounted using the internal reserves of the system. On the contrary, we are witnessing a general crisis of the socioeconomic system as well as of the national-state system and ideology—a crisis exposing the lack of vitality of existing structures.

This lack of vitality was masked up to the present by the extensive use of human and natural resources; but this type of economic development exhausted itself back in the sixties. During the last two decades there has been an uninterrupted fall in the rate of economic growth. The country's economy has not participated in the present stage of the world scientific and technical revolution, and it has found itself deprived of mechanisms of structural perestroika. The gap in the level of technology, quality of goods, and living standards (by a factor of 3-5) with countries having a developed market economy has reached critical proportions.

Since the middle of the seventies the national economy has functioned for the most part using income from exports of raw materials and energy products, limitation of the population's consumption, and isolation from the world market. In the eighties practically no economic growth was observed and "squandering" of the national wealth occurred: The production apparatus has not renewed itself in many sectors for 15-25 years, soil fertility in a number of regions has decreased by a factor of 2-3, natural resources have been used in a predatory manner, and the burden on the environment in a number of regions has exceeded all acceptable limits. A beggarly standard of living for tens of millions of people, the impossibility of satisfying critical needs, and the absence of incentives to work have given rise to processes of physical and social degradation.



Rates of Growth in the USSR 1975-1990
(as a percentage of the preceding year)

Key:

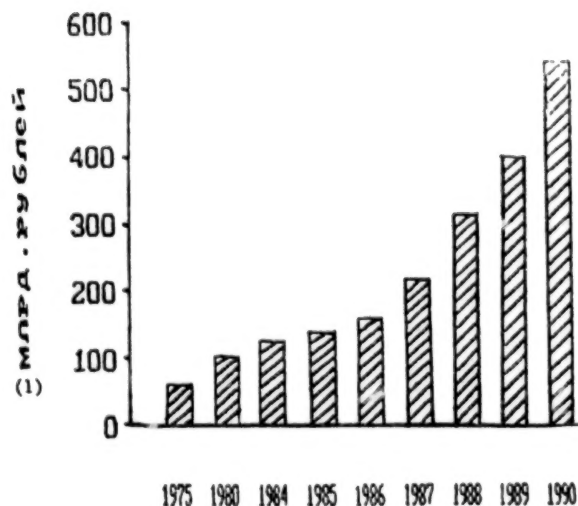
1. National Income 2. Industrial Production

The potential for today's socioeconomic crisis accumulated over decades and could not help but show itself in critical, destructive forms. The simultaneity in time of negative tendencies in the economy and far-reaching political reforms was unavoidable—the socioeconomic contradictions appeared openly in the course of the democratization of the political system.

Economic Policy of 1985-1990

In 1985 the direction of economic reforms was genuinely chosen (decentralization, increased incentives to work), but the prolonged absence of a program of radical reforms, the halfheartedness of the decisions that were made, and the incompetency of the leaders of the organs of economic administration only aggravated the manifestations of the crisis.

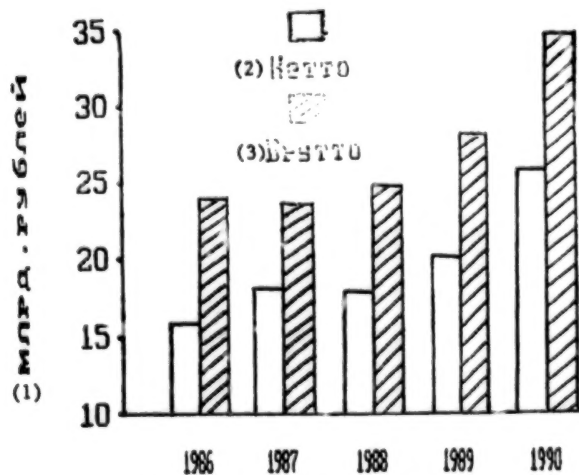
The government's monetary, financial, and credit policies caused especial damage. And escalation of state consumption while preserving the structure of production unchanged led in essence to the elimination of the consumer market. By 1985 the economy of the USSR had already accumulated significant inflationary potential, which was not manifested because of the rigidity of the financial system. However, in the 12th Five-Year Plan this potential increased abruptly, and the blame for that lies with the scandalous incompetence and irresponsibility of the leadership of financial organs. During 1981-1985 the estimated domestic national debt grew R37.8 billion (rubles); by comparison, over the next five years it grew no less than R400 billion. Considering that by the end of 1989 the net foreign debt of the USSR had more than doubled in comparison with the 1984 level, one may come to the conclusion that over recent years the state has, in essence, "been living in debt" and is already on the verge of bankruptcy.



National Domestic Debt of the USSR

Key:

1. Billions of Rubles

National Foreign Debt of the USSR
(in freely convertible currency)

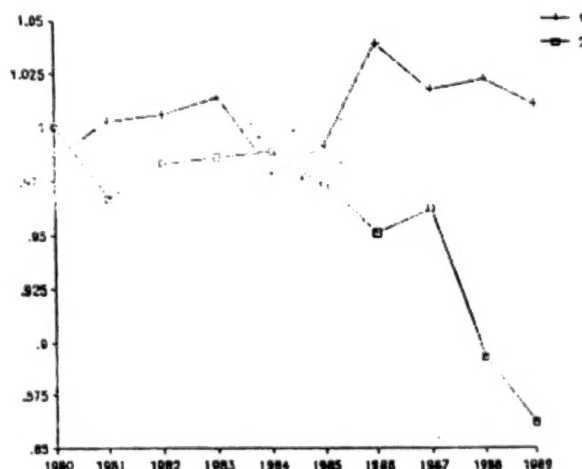
Key:

1. Billions of Rubles

3. Gross

2. Net

The policy of "acceleration," envisaging hastened development of machine building within the bounds of the former structural priorities aggravated the macroeconomic lack of balance. Additional financial resources received as a result of emission were pumped into the investment sphere, which was already distinguished by its hypertrophied levels. The overwhelming majority of additional capital investments was frozen in uncompleted construction and in inefficient production, which gave rise to a powerful inflationary wave. Beginning with



Ratios of Rates of Growth in the USSR (1980-1990)

Key:

1. Ratio of Capital Investments to Rates of Growth of Industrial Production

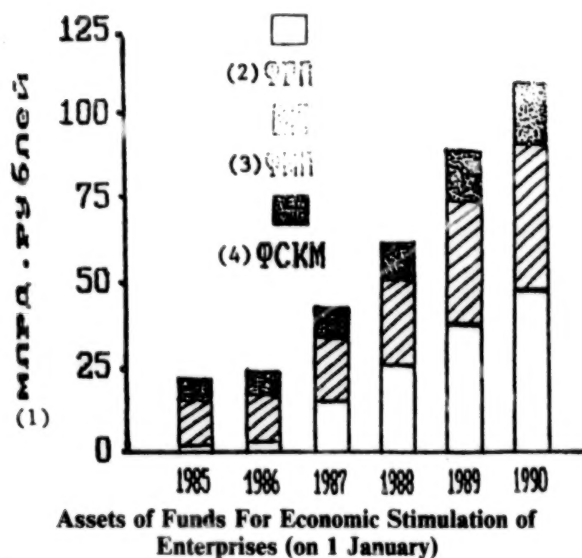
2. Ratio of Introduction of Fixed Capital to Capital Investments

1988 the situation in capital construction may be characterized as an investment crisis which no appropriations will help to overcome any longer. The commissioning of social and cultural facilities has decreased most significantly, and plans for housing construction are being frustrated.

An abrupt increase in centralized expenditures on social and cultural measures, although it was directed at increasing the standard of living of broad segments of society, in fact had the opposite effect inasmuch as it was also wholly financed through emission. Under these conditions a nominal growth in the income of the population is quickly "eaten up" by inflation and the deficit is simultaneously increased (see footnote 1).

The state budget suffered substantial losses in the course of the anti-alcohol campaign as well as from a change in world oil market conditions. Cleaning up the consequences of technological catastrophes (Chernobyl) and natural disasters required large expenditures. A no less serious factor in the destabilization of the financial system was the uncontrolled growth of balances of monetary assets on the accounts of funds for economic stimulation (FES) of enterprises beginning in 1986.

The assets of the fund for the development of production (FRP) grew especially quickly—by a factor of almost 10—during this time. The balances of assets in the fund for financial incentives (FMP) and the fund for social and cultural measures and construction of housing (FSKM) tripled. All the markets are feeling the pressure of this money, especially the market of production assets. The fundamental reason for such a situation is the

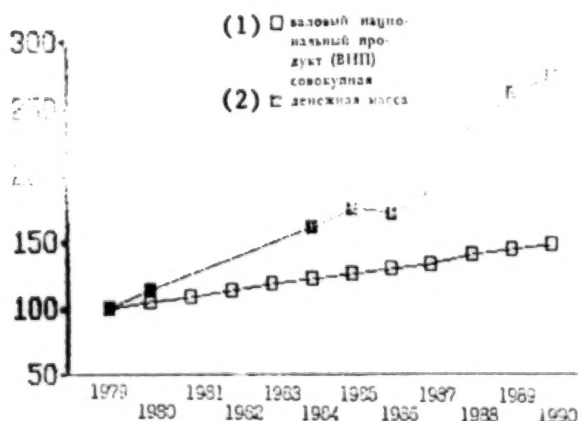


Key:

1. Billions of Rubles
2. Fund for the Development of Production
3. Fund for Financial Incentives
4. Fund for Social and Cultural Measures and Construction of Housing

preservation of "soft" budgetary restrictions while the state refuses to immobilize the free balance of the profits of enterprises.

Inflationary financing of the additional expenditures of the state in the absence of objective statistical information permitted maintenance of the illusion of change for some time. And social dissatisfaction is all the greater today in the period of an extremely brutal financial



Comparison of the Rate of Growth of Gross National Product ((GNP)) and the Total Money Supply (M₃)¹

Key:

1. Gross National Product
2. Money Supply

crisis. Control over the growth of the money supply under today's conditions is already impossible without extraordinary measures.

These mistakes in economic policy were made against a background of inconsistent, halfhearted actions to change elements of the existing system of management that often did not go any deeper than the external layer of the problem.

In the course of six months the government proposed in essence two fundamentally distinctive programs for reform, neither of which evoked much trust, and both turned out to be unfit for practical implementation.

However paradoxical it may be, the stage of the 1985-1990 years was objectively necessary for society so that it would recognize the lack of viability of the existing socioeconomic system and work out a program for a transition to another model of development. A significant tendency toward inertia in social development does not permit us to avoid a period of "reevaluation of values," but the accumulation of knowledge and ideas during that period are necessary for the subsequent reforms.

A number of circumstances dictate the need to quickly determine the basic direction of economic reform, adopt a program of action, and begin to implement it:

- The decline in the rate of growth of industrial production which began at the end of 1988 has turned into an economic recession which is deepening with every month;
- The country's foreign economic situation continues to worsen and the state's ability to pay is already being guaranteed through the use of reserves whose volumes are steadily decreasing;
- The consumer market has been almost completely supplanted by rationed distribution and the "black market," and social tension has reached its limit;
- In the absence of a program for economic reform, the organs of state administration at the republic, oblast, and rayon levels and enterprises are compelled to seek a way out of the existing situation on their own, which encourages centrifugal tendencies and deepens the crisis.

The Various Choices

The acuteness of the economic and political crisis and of ethnic and ideological contradictions deprives the country's leadership of room to maneuver and narrows the circle of possible alternatives for the further development of events. At present the political and economic center has, in essence, three choices of actions:

1. Reacting to events and fighting negative process after they have already gathered momentum. A policy of half-measures and gradual reforms in the sphere of economics.

2. A type of "recoiling," leading to the restoration of centralized administration of the economy (directed planning of production and funding of material resources, strict limits on income, and elimination of all new forms of organization of economic activity).

3. An acceleration of preparations for and implementation of radical economic reform, the goal of which is to create during the next 1.5-2 years the foundations for a market economy that is able to develop on its own and is oriented toward satisfying the demands of the people.

We will examine what will happen should the country's leadership pick each of these choices.

1. **Gradual reforms.** The opportunities for acting in this fashion have almost been exhausted, inasmuch as the process of the disintegration of the economic system will continue if this variant is chosen and dozens of autarchies will appear within the borders of oblasts and national-territorial formations. The exchange of products between them will take the form of barter transactions. As a result it will be necessary to choose between hyperinflation and direct immobilization of monetary assets belonging to the population and enterprises. The slump in production will deepen and many major enterprises will come to a halt as a result of a lack of component products. A severe shortage of consumer goods and materials required for production will only be alleviated through imports, but the country will most probably be refused new credits. Collapse of the major city centers and a decline in the production of a marketable surplus in the most productive agricultural regions will begin. The consumer market will be supplanted by rationed distribution and the "black market."

The economic failure will be aggravated by the absence of a unified program of action. Each republic, and then each territory (and finally each rayon), will try to pull itself from the crisis on its own, which is ruinous to an economic system that is integrated and overly monopolized.

The political consequences for choosing this course of action are the final disintegration of the Union and clashes on nationalist grounds in regions that are ethnically diverse. Contempt for the law will encompass all spheres of society's life.

2. **The possibility of a return to an economic system in the "1984 model"** should be viewed as very real when it is considered that it has many adherents both in the organs possessing power and among certain groups of the population who have grown weary of the instability of living conditions. Many people still do not totally recognize the self-destructiveness of the old economic and political system, which caused a great country to be bypassed by world progress. A mounting crisis took place in the centralized type of economy during the period from 1970 to the beginning of the 1980's, so one would therefore have to return to the management system of the 1930's-1950's. It is clear that it would be impossible to achieve this without wide political repression, and the

historical development of humanity has proved the inefficiency of an over-centralized economy.

3. **Radical economic reform.** The need to move to another type of social system is dictated by the universality of the laws directing the economy and society as a whole. Attempts to seek out a different, unique path so that a single country may cheat the logic of historical development are inevitably doomed to defeat.

In the meantime, we now have conditions that favor radical restructuring:

- Understanding by broad social segments of the essence of the process of social and economic life has reached a level which permits the development and implementation of a package of reforms (political and economic, and of the national-state system);

- A great preparatory effort conducted over the last 2-3 years permits us to develop a detailed program of economic reform in a short period of time as well as the legislative acts and the normative and methodological documents necessary for its implementation;

- Military opposition has been reduced, and a streamlining of foreign economic relations and direct aid from foreign states permit the formation of reserves necessary for the successful institution of reforms.

However, the implementation of any reforms at the present time requires not only the political will of the leadership of the country but also the agreement of the republics, coordination of their activities, and the trust of the people.

2. The Goals of Reform and Principles of the New Economic System

The main goal of reform is the economic freedom of citizens and the creation on this basis of an efficient economic system able to guarantee dynamic development of the national economy and a dignified standard of living for the citizens of this country once it has caught up to other countries.

Mankind has not succeeded in creating anything more efficient than the market economy. The market economy creates strong incentives for man to realize his potential and to increase labor and economic activity, and it sharply accelerates scientific and technical progress. The mechanisms of self-regulation that are characteristic of it guarantee the best coordination of the activities of all economic bodies, the rational use of labor, material, and financial resources, and balance in the national economy. It is apparent that only a transition to an economic system based on market relations will permit the resolution of the most crucial of the country's problems, which have accumulated across decades, organically unite our economy with the world economy, guarantee the growth of production in accordance with the needs of the workers, thus guaranteeing the economy's social orientation, eliminate shortages, and grant access for our citizens to all the achievements of world civilization.

A turning point, painful but necessary for the fate of the country, must take place. It consists of replacing state guardianship, living at others' expense, unwarranted leveling, apathy, and mismanagement spawned by the command and administrative system with freedom of economic activity and responsibility of each citizen for his own welfare as well as hard, well-organized labor and rewards in accordance with the results of that labor.

The market mechanism is the sole mechanism which permits one to unite different states and their economic systems. Therefore only a transition to the market will permit us to create a foundation for the voluntary association of sovereign republics within the bounds of a renewed Union.

Certain prerequisites, which should be created in the course of a transition period, are necessary for the efficient functioning of a market economy. They form the framework and the principles for the functioning of a new economic system.

1) **Maximum freedom of the economic entity** (enterprise or entrepreneur). Recognition of the important social role of the most active, qualified, and talented people—workers, peasants, entrepreneurs, and organizers of production—and wholehearted encouragement of private business undertakings.

2) **Full responsibility of the economic entity** for the results of the economic activity, based on the legal equality of all types of property ownership, including private property. The importance of property ownership in this instance is to ensure that it may be clearly determined who bears liability in terms of property for the results of management, that the sphere for the most efficient application of each form of property ownership may be found in the course of development of the economy, and that the state may not engage in functions that are not proper to it.

Only on the basis of new relations of ownership will there be a resolution of the problem of long-term interest of enterprises and citizens in ensuring optimal proportions of consumption and accumulation, in renewing and developing production potential, and in increasing efficiency of capital investments. Income from property is recognized as a legal category of income.

3) **Competition of producers** as the most important factor for stimulating economic activity, increasing variety, improving the quality of production in accordance with the demands of the consumers, reducing costs, and stabilizing prices. The development of healthy competition requires demonopolization of the economy, formation of an appropriate structure of production which guarantees the presence on the market of a sufficient number of producers of each type of product, free entry to the market for any economic entity, state support of competition, and prevention of monopolistic practices.

4) **Free pricing.** Market mechanisms can function effectively only when the majority of prices are established on the market freely, balancing supply and demand. We will

allow state control over prices only within limited bounds and without crude violation of the laws of market price formation, which inevitably leads to shortages.

5) **Extension of market relations to those spheres** where they demonstrate greater efficiency in comparison with state or other forms of regulation. From this it follows that the goods market should be supplemented with a labor market and a financial market which will guarantee the high mobility of social resources and their quick displacement to spheres of the most rational use and which will stimulate accumulation and scientific and technical progress.

At the same time, a significant nonmarket sector, which includes those forms of activity which cannot be subjected to purely commercial criteria (defense and a portion of public health, education, science, and culture), is preserved in the economy.

6) **Openness of the economy** and its subsequent integration in the system of world economic ties. The principle at issue is that any economic entity has the right to carry out foreign economic activities. Foreign corporate bodies and physical persons operate on the domestic market under conditions that are equal with all producers in accordance with established legislation and universally-recognized international norms.

7) The most important task of state power at all levels, and especially at republic and local levels, is to provide a high degree of **social protection** to citizens. This is understood, on one hand, as granting all citizens various opportunities so that by their labor they may provide themselves with a dignified life and, on the other hand, as state support for those who are incapacitated and for those members of society who are socially vulnerable.

8) All organs of state power **renounce** direct participation in economic activities (with the exception of some specified areas). However the market, while ensuring high economic efficiency of production, is in need of state and social regulation from the point of view of forestalling those negative consequences which may be engendered by its uncontrolled operation, such as instability of production, excessive property and social differentiation, and unevenness in the development of individual regions. The state carries out macroeconomic policy and contributes to the formation of an environment which is favorable for economic activity, especially in directions that correspond to public interests.

The special feature of the USSR which ensues from its political structure as a union of sovereign states consists of the fact that the basic unit of state economic regulation is the union republic. Union and interrepublic organs function in accordance with the powers transmitted to them by the republics under conditions of the new Union treaty. The powers of the local organs of power and self-government are delegated to them by the republics in accordance with their constitutions.

In the execution of economic policy the state uses:

- Legislative regulation of economic activity, including activities with the goal of preventing monopolistic policy, encouraging healthy competition and protection of the consumer and the environment;
- A unified monetary and banking system and methods of regulating the money supply;
- A system of taxes, tax exemptions, and financial sanctions;
- A system for regulating prices;
- Budgetary allocations, and it conducts operations with assets belonging to the state;
- Specialized socioeconomic, scientific, technical, and investment programs.

The activities of state organs for regulating the economy are built on a strict demarcation of the authority of the legislative, executive, and judicial powers.

3. An Economic Union of Sovereign Republics²

The desire of the people for economic and political sovereignty is expressed in the adoption of declarations of state sovereignty (independence) of the republics and of legislative acts strengthening their economic independence.

Attempts to turn the clock back are hopeless; the sovereign republics believe that their common goal is the fundamental restructuring of unitary political and socioeconomic structures.

At the same time, the processes of transforming the national-state structure of the USSR, while basically positive, are accompanied by bitter conflicts and significant economic losses. The situation in which neither the Union organs of administration nor the republic governments possess the full powers necessary to conduct economic policy is extremely dangerous for an economy functioning as a centrally administered system.

Acknowledging the similarity in their fundamental problems of socioeconomic development and taking into consideration production, financial, credit, trade and other existing ties as well as the need for coordinated actions in the implementation of economic reforms, the sovereign states agree to the creation of a new Economic Union. This will permit us to halt the process of the breakdown of interrepublic economic ties and to lend the mechanism of economic integration a basis that is fundamentally different—voluntariness and consideration of the interests of all republics.

The goal of the Economic Union is to guarantee the well-being of all peoples, to develop and enrich national cultures, and to implement the principles of values common to all mankind through the creation of an effective market economy and economic integration of the republics based solely on mutual interest and equal partnership.

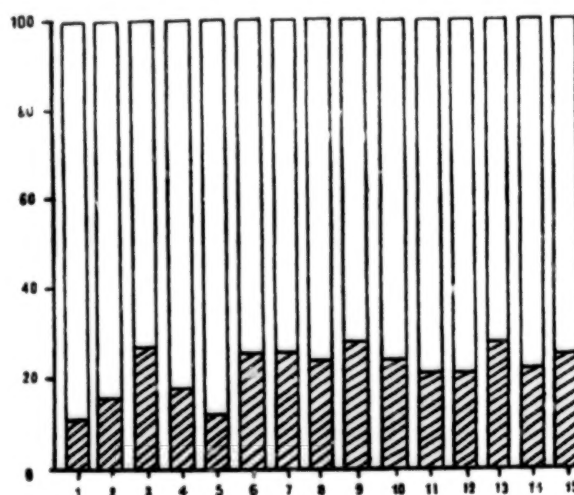
The following principles are at the foundation of the Economic Union:

1. The Economic Union is based on the principles of the **equality of the members of the Union**—of sovereign states voluntarily belonging to it.

2. The **basis of the economy is the entrepreneur** or the enterprise which increases its property and, consequently, the national wealth. The basic role of the state in the economy consists of conducting macroeconomic policy, forming a market infrastructure, and guaranteeing social protections to the citizens.

3. All sovereign states which are members of the Economic Union make up a **unified economic region** and conduct a coordinated policy to form conditions for free entrepreneurial activities by all economic entities (enterprises, commercial organizations, and private persons) and to defend the market.³

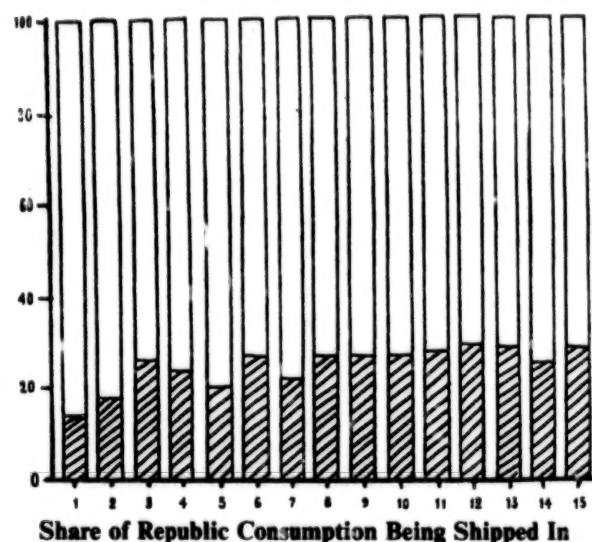
4. A condition of membership in the Union is that a republic must fully accept certain obligations ensuing from the Treaty on the Creation of the Economic Union. A state which does not undertake full implementation of the obligations may receive the status of associate member or observer, with the agreement of all members of the Union. Members of the Union retain the right to freely withdraw from it. Member-states violating the rules of the Treaty may be expelled from the Union.



Share of Republic Output Being Shipped Out

Key:

- | | |
|----------------|------------------|
| 1. RSFSR | 8. Lithuania |
| 2. The Ukraine | 9. Moldova |
| 3. Belorussia | 10. Latvia |
| 4. Uzbekistan | 11. Kirghizia |
| 5. Kazakhstan | 12. Tajikistan |
| 6. Georgia | 13. Armenia |
| 7. Azerbaijan | 14. Turkmenistan |
| | 15. Estonia |



- Key:
- | | |
|----------------|------------------|
| 1. RSFSR | 8. Lithuania |
| 2. The Ukraine | 9. Moldova |
| 3. Belorussia | 10. Latvia |
| 4. Uzbekistan | 11. Kirghizia |
| 5. Kazakhstan | 12. Tajikistan |
| 6. Georgia | 13. Armenia |
| 7. Azerbaijan | 14. Turkmenistan |
| | 15. Estonia |

Economic Sovereignty of Member Republics of the Union

The executors of state regulation of the economy are the union republics and the Union, in accordance with the authority entrusted to them by the republics. The organs of administration of the Economic Union function in accordance with the authority entrusted to them by the republics.

The sovereign republics have the exclusive right of legislative regulation of ownership, use, and distribution of all national wealth situated on their territory. The land, its minerals, the inland and territorial waters, the continental shelf, the air space, and other natural resources as well as the economic, scientific, and technical potential it has created are the property of their people and the material basis of state sovereignty of the republic. The sovereign republics have the right at the moment the Treaty is concluded to their own share of the All-Union wealth that has been created (including the Union's reserves of diamonds, hard currency, and gold).⁴

Functions and Powers of Members of the Union

All functions and powers of members of the Union proceed from the principle of the supremacy of the legislation of the sovereign republics and the efficient division of functions of republic and Union administration. In accordance with this, the sovereign states bear

fundamental responsibility for the economic development of their own territories, carry out economic policy based on separation of the jurisdictions of the republics and the Union, and independently create a structure for administering the national economy.

Member republics of the Economic Union develop the bases for a common economic policy, jointly adopt legislation regulating the system of interrepublic relations, determine a procedure for resolving economic disputes and conflicts, conduct a unified policy for providing pensions and employment, and harmonize their actions to provide social guarantees to citizens. They create administrative organs of the Union for joint administration of those spheres of activity which objectively require the execution of a unified economic policy.

In the common interests of socioeconomic development, the republics delegate the following powers to the Union's administrative organs which they are creating:

1. Creation of economic conditions to maintain defense capabilities, provide for the state security of the Union, and fight organized crime.
2. Development of long-term predictions for the economic and social development of the country and formation and implementation of major national economic programs at the All-Union scale.
3. Implementation of coordinated credit, monetary, and hard-currency policy directed at strengthening the purchasing power of the ruble. A ban on limitations on the movement of monetary resources outside the Union.
4. Development and introduction of unified customs regulations ensuring protection of the All-Union market. A ban on the use of quotas, limitations, or customs barriers against the movement of a coordinated list of goods inside the Union.
5. Regulation on an All-Union scale of prices on key types of raw materials, output, goods, and services; all members of the Economic Union will come to an agreement on the list of these.
6. Development of a strategy of foreign economic policy. Formation and use of an All-Union hard-currency fund and execution of the obligations of the USSR to the international community.
7. Development and implementation of measures on an All-Union scale to provide for the ecological security of the population.
8. Development and implementation of measures on an All-Union scale to implement a policy in the sphere of social protection and support for citizens.
9. Organization of unified patent and meteorological services, services for unified times, measures, and weights, the establishment of All-Union standards and

introduction of international standards, and organization of All-Union statistics and of a unified system of bookkeeping.

10. Administration of those spheres of activity and specialized programs which by their character require unified leadership at an All-Union scale such as:

- the most important basic research;
- defense programs;
- a unified energy system;
- main railways and trunk pipelines;
- nuclear energy;
- space systems and research;
- an All-Union system of communications, information, and information science;
- a state All-Union system for averting and reacting to emergency situations.

State organs for administering naval and air transport and fishing hand their authority over to newly-formed trans-republic joint-stock companies. With the agreement of the republics, such companies may also be created in other spheres.

With the goal of resolving tasks that are common to the sovereign republics, they form property jointly owned by all the republics (Union property). Resolution of questions of the creation and administration of Union property is carried out on the basis of agreements.

As they carry out the activities assigned to them, the administrative organs of the Union and republic must be guided by the following basic requirements:

1. The powers which have been delegated to administrative organs of the Union may not be amended without the agreement of all the parties of the Treaty.
2. The parties of the Treaty bear economic responsibility for violation of obligations that have been assumed.
3. The powers delegated to the administrative organs of the Union should ensure uniform regulation of the economic regime on the basis of antimonopolistic legislation and coordinated measures to fight unfair competition and to protect the interests of consumers; they should ensure regulation and equalization of initial conditions for the transition of the republics to market relations.

This Treaty and the legislative and normative acts developed in accordance with it serve as the legal basis for the new economic relations between sovereign republics.

Administrative Organs of the Union

Depending on their nature, the structure of the administrative organs of the Union may be formed in accordance with parity representation of all republics or on a federative principle of design.

Membership in the Economic Union

A republic acknowledging the basic principles of the organization of the Union and accepting all the corresponding obligations may be a member of the Economic Union.

If a sovereign state does not accept any of the obligations accepted by all the members of the Union, it receives the status of associate participant of the Economic Union (observer) and enjoys the right of participation in individual All-Union programs as soon as and on the condition that it contributes its own share of assets toward financing them.

In the event that one of the republics wishes to leave the Economic Union, its supreme organ of administration is obligated to give timely notification to all members of the Union, and in the process the republic that is leaving is obligated to guarantee payment of all debts and execution of treaties and other obligations that have been concluded.

The Budget of the Union

The procedure for forming and making use of the budgets of the sovereign republics is determined by legislation of those republics. They independently develop and utilize a system of taxation, collection, and obligatory payments. All subjects of the economy, corporate bodies, and physical persons situated on the territory of the republics make deductions (dues, payments) only to republic and local budgets.

The budget of the Union is formed when the republics hand over financial assets for the execution of powers delegated to the Union. The contribution of each republic to the budget of the Union is determined by the volume of its GNP (national income) or per capita GNP. Coordination of the size of the payment of the republic to the Union budget based on the volume of per capita GNP is directed at equalization of initial conditions for the transition to market relations for all parties of the Economic Union. This payment may be established as a type of federal tax upon the agreement of the republics.

The budget of the Union stipulates the following orientations for expenditures (aggregated):

- defense;⁵
- state security;⁵
- the fight against organized crime;
- major environmental measures;

- social and other specialized programs at the All-Union level;
- a fund of regional development (and subventions);
- a fund for emergency situations and cleaning up the effects of natural disasters and catastrophes;
- servicing of the domestic and foreign national debt of the USSR;
- foreign economic activities of the Union;
- maintenance of administrative organs of the Union;
- financing of basic scientific research;⁵
- a reserve fund.

By mutual agreement the member republics of the Economic Union may also finance implementation of other economic, scientific, technical, social, and ecological programs on a bilateral or multilateral basis.

The Hard-Currency Fund of the Union

The republics create a hard-currency fund with the goal of financing the foreign economic activities of the Union with regard to the powers delegated to it, and the fund is formed with payments from the republics of sums determined on the basis of the share of each of the republics in the aforementioned fund. The size of the fund is determined by the need to cover a whole series of expenditures in hard currency:

1. Servicing of the USSR's foreign national debt. In this case its size, as well as the coordinated share in it of each of the republics, is determined according to the situation on a date fixed in the Treaty (servicing of the USSR's foreign national debt is accomplished by all republics according to a coordinated procedure. In this case its general size is determined according to the situation on a date fixed in the Treaty. The share for associate members of the Union is determined and a procedure for repayment is determined).⁶
2. All new loans are executed either jointly, in which case expenses for servicing the foreign debt of the Union arise, or separately. In the second case, the debt is a foreign national debt for the appropriate republic and the expense of servicing is assumed by it alone.
3. The presentation to foreign states of loans and other economic aid as well as the conclusion of agreements to receive such aid from foreign sources in the name of the Union requires the coordinated agreement of all the republics.
4. Execution of foreign economic obligations that were assumed previously and of obligations concerning contributions to international organizations, banks, and funds is carried out according to a procedure similar to that indicated in paragraphs 1 and 2.

5. Imports for execution of common programs and maintenance of foreign institutions and a number of other types of expenditures are carried out on the basis of the demand for the expenditure and are financed proportionately by the republics.

All-Union hard-currency reserves are created on a level which is sufficient for guaranteeing the existing foreign debt of the USSR and new All-Union programs.

The Economic Union and Reform

The sovereign member states of the Union do not see any other way to surmount the crisis of the socioeconomic system than through economic reform based on the creation of a market economy.

They affirm the impossibility of improving the present situation under the existing administrative structure of the USSR national economy. The structure of the Union's administrative organs should be created in accordance with the principles of the formation of the Economic Union that have been set down.

Each sovereign republic, independently and on the basis of a coordinated concept, is developing a set of measures for the transition to market relations and is defining a sequence of steps in the establishment of a market economy. With regard to their own specific conditions, the republics are establishing the most efficient means of using production and economic potential, carrying out structural reforms, and creating basic market institutions. At the same time, the successful implementation of economic reform is possible only on the basis of efficient coordination of the actions of all the republics.

The Program for the Transition to a Market Economy must become the basis for the coordinated activities of the member state of the Economic Union, and the model drafts of legislative and normative acts that are developed on the basis of it may be utilized in the preparation of the appropriate republic legislation. An interrepublic economic committee is being created for implementation of the Program under the president of the USSR.

On Supplements to the Treaty on Economic Union

Along with the conclusion of the Treaty on the Creation of an Economic Union, its participants sign a number of agreements regulating forms and mechanisms for coordinating economic policy of the member states of the Union, including:

1. On the creation of a Union Reserve System and the implementation of a unified monetary and credit policy.
2. On a Union budget.
3. On a tax policy.
4. On a customs policy in the Union.
5. On a Union hard-currency fund and a hard-currency policy.

- 6. On deliveries and operations for All-Union needs.
- 7. On interpublic deliveries.
- 8. On a Union pension fund.
- 9. On a Union employment fund.

4. Logic of and Stages in a Transition to a Market Economy

General Concept

The transition from a command economy to a market economy conforms to common laws which everyone must take into account.

This process includes, on one hand, deep institutional changes affecting the structure of socioeconomic relations as well as production, and on the other hand it presupposes implementation of stabilizing measures, especially in monetary, credit, and financial spheres and in pricing.

Work should be carried out in the following directions.

1) Denationalization of the economy, privatization, and development of entrepreneurship. Denationalization is understood as removing the functions of direct economic administration from the state, transferring the appropriate powers down to the level of the enterprise, and replacing vertical ties with horizontal ones; this may take place even without changing the owner.

Privatization means changing the owner by transferring or selling under various conditions state property to economic entities which will henceforth use it in economic activities, bearing full accountability in terms of property for their results.

Denationalization and privatization strengthen the regime of commercial accounting and self-financing and are in this sense an important factor in financial renewal. They also create guarantees for the development of entrepreneurship, which permits our enormous reserves to be engaged and on this basis improves the economic situation of the country. The entrepreneur is one of the key figures of the market economy; he is interested in seeking out and utilizing reserves and opportunities.

2) Formation of a market and a market infrastructure and new mechanisms for establishing economic ties and developing entrepreneurship. During the transition period, use of state orders and limited distribution of products manufactured for them is required in forms which would not obstruct development of market relations in order to maintain material balance in the most important sectors of the economy.

3) Demonopolization of the economy and elimination of organizational structures which have arisen within the bounds of the command and administrative system and which are obstructing development of market relations. This is a most important prerequisite for entrepreneurship, competition, and a transition to free pricing.

4) Removal of state control over prices and a transition to free pricing in accordance with supply and demand, without which functioning of a market mechanism is impossible.

5) A strict monetary, credit, and financial policy directed at limiting the money supply in circulation. The need for this arises because the growth of the money supply, a relative abundance of money, and a shortage of goods is a basic characteristic of the command and administrative system. Without implementation of such a policy, removal of price controls would lead to a high rate of inflation.

6) Creation of a strong system of social support and guarantees for the population which would ease the transition to conditions of a market economy for people and protect socially vulnerable groups from the difficulties of the transition period.

7) Implementation of an active structural and investment policy which, relying primarily on economic methods, would ensure the necessary structural changes in the national economy in the direction of its social reorientation, of accelerated development of the production of consumer goods and services, of reduction of losses, of increased flexibility of production, and of receptivity to changes in demand and to technological innovation.

Structural perestroika is, in the end result, a necessary condition of stable market equilibrium and of the efficient functioning of all market mechanisms.

The accelerated creation of a legal base should be provided for each of the enumerated directions and an enormous organizational effort should be carried out at all levels of state power and administration.

The sense of this work, however, is not so that forces of a small number of specialists will do everything for everyone, teaching and giving orders. The principle feature of the market which substantially eases the establishment of the structures appropriate to it is that they arise naturally and as the result of an activity of millions of people which does not need to be planned in detail. This is the pledge of success of the program for the transition to a market economy.

The task of the program and of the work based on it consists of directing this activity and keeping the economic and social losses inevitable during the transition period to a minimum. The choice of the measures implemented for each of the above directions and their coordination among themselves and in time must be subordinated to resolution of this task.

When determining a concept and logic of reform, it is necessary to proceed from the fact that the transition to a market economy, up to the moment when it fully reveals its possibilities, is a process that is relatively long

and embraces the entire period of deep structural perestroika of the national economy and of serious changes in the aims and norms of conduct of millions of people.

In the meanwhile, the time for gradual reforms is past; the inefficiency of partial reforms has been proved by our own experience and that of the countries of Eastern Europe. The complexity of the situation in the economy, the growth of the crisis, the dissatisfaction of the people, and the loss of people's hope in change for the better—all this requires immediate, decisive, and comprehensive measures which will permit stabilization of the situation.

The world's experience with stabilization programs shows that they are all conducted in the shortest time period and are based primarily on reform of monetary, credit, and financial mechanisms.

The center of gravity at the first stage of reform is with repairing the monetary system as well as supporting existing economic ties and material flow in the economy. Stimulation of production, regulation of economic circulation, and a transition to market pricing are impossible without reliable money. A stable ruble will have an immediate effect on the correlation of consumer demand and money supply and on saturation of the market, and it will serve as the starting point for actions in other directions.

For the initial, special steps in this sphere, one must pursue interrelated measures of a middle- and long-term nature. As soon as decisive results are achieved in the repair of finances and of the monetary system, it is necessary to move to liberalization of prices, carrying this out with regard for the socioeconomic conditions that are arising.

At the same time, one must take active measures to withdraw the state, demonopolize the economy, and develop entrepreneurship and competition in order to create in the shortest possible time the prerequisites for the institution of market mechanisms of self-regulation. Only they can guarantee reliable stabilization of prices and lead to an increase in the volumes and variety of production and to an increase in its quality and a decrease in losses. So long as they have not begun to operate with sufficient force, it will be necessary to adhere to a strict financial and credit policy in order not to allow uncontrollable inflation. At the same time, however, business activity and development of production may be restrained.

In connection with this, structural perestroika of the economy will have to be limited to the most urgent measures.

The period during which a strict financial and credit policy is conducted and liberalization of prices, denationalization, and demonopolization of the economy take place prior to the appearance of clear signals of the institution of mechanisms of competition and market self-regulation makes up the period of stabilization of the economy.

Following implementation of the Program, the period of development of a full-blooded market, an active structural and investment policy, a rise in production, and an increase in its efficiency begins.

As opposed to preceding concepts, this present Program takes into consideration a fundamentally new political situation: The declaration by the republics of their sovereignty does not permit us to develop a program from the center that is unified in all details. Each republic has the opportunity to develop and implement its own program of economic reform on the basis of an analysis of the specific socioeconomic situation and its own view of its basic problems with regard for ethnic and historical peculiarities. The process of reform is already heading in this direction.

The common nature of the goals and problems which must be decided by the republics as well as existing technological, financial, credit, and other ties dictate the need for a coordinated choice preserving a common mechanism and logic for the transition to a market economy. The republic organs may conduct all this activity completely independently on the basis of common principles. Coordination and synchronization of their actions will heighten the efficiency of the reforms and reduce possible losses.

A system of reforms is also preferable which would satisfy the economic interests of each of the republics, efficiently determine the necessary regulating activities of the Union organs, mutually coordinate scales, forms, and pace of basic reform measures in the republics, and lay the economic basis for a future system of relations between republics.

In the majority of the directions of reform the republics, while consolidating their sovereignty in the economy, may and will function independently, coordinating their activities. These directions include:

- denationalization of the economy, privatization, and development of entrepreneurship;
- demonopolization of the economy and perestroika of existing organizational structures;
- structural and investment policy;
- regulation of income and social support of the population.

At the same time, unified or coordinated actions are necessary with regard to a number of directions in the interests of all the republics. They include:

- monetary, credit, financial, and hard-currency policy and the implementation of emergency measures to limit the money supply and to eliminate the budget deficit;
- removal of state control over prices;
- perestroika of the mechanism of foreign economic ties.

A certain coordination of activities in structural policy and state regulation of production via the system of state orders is also required.

Time does not wait for us. In the course of a relatively short period encompassing approximately 500 days, for which the country's leadership may still receive a vote of confidence, reforms will be implemented which will open the road to the development of market relations and will ensure a visible improvement in the economic situation and in the lives of people.

The First 100 Days—A Program of Emergency Measures (From 1 October to the Beginning of 1991)

The first day—the president of the USSR and the leaders of the republic announce the introduction of legislative acts consolidating the basic principles of economic reform:

- equality of rights of physical persons and corporate bodies at any economic activity except those forbidden by law;
- denationalization of the economy: The transfer (sale) of a portion of housing and land assets to ownership by citizens, the reorganization of large state enterprises into joint-stock associations, and the privatization of small enterprises of trade, food services, and consumer services;
- guarantees of property rights to physical persons and corporate bodies (Soviet and foreign) for any kind of property outside of the circle of facilities belonging exclusively to the state;
- the removal from criminal and administrative laws of articles stipulating punishment for entrepreneurial activities; amnesty for those convicted under these articles together with an increased effort to fight crimes against property, to provide measures to ensure public security, and to strengthen law enforcement organs;
- emergency powers for the president of the USSR and for the highest representatives of authority of the union republics in the realm of monetary and financial policy.

An interrepublic economic committee is formed under the president of the USSR with the participation of authorized representatives of all the republics in order to implement the program for the transition to a market and to establish an effective leadership for the implementation of reforms.

It is recommended that before the end of 1990 the Supreme Soviet of the USSR and the supreme soviets of the union republics adopt a package of legislative acts necessary to the functioning of a market economy and postpone the review of other draft bills during this time.

In the event that the necessary acts cannot be adopted in a timely manner, they will be put into effect by temporary Edicts of the president of the USSR.

State property, financial assets, and all types of reserves are inventoried and, at the same time, sold off to citizens as property:

1. A portion of the state's passenger and cargo vehicles are sold off;
2. Uninstalled equipment, construction materials, and unfinished construction projects that are being built using budgetary allocations are auctioned off;
3. Military property designated for civilian use is sold;
4. Suits are brought for the return to state ownership of that portion of the property and financial assets of public organizations which was created using assets of the state budget. Then this property is sold to enterprises and citizens.

Work is quickly started on the transformation by the end of the year of approximately 50-60 state enterprises into joint-stock companies, on the transfer or sale for symbolic fees of certain categories of housing and plots of land, and on the leasing or sale of stores and other small enterprises. All the necessary conditions are created for enterprises to be quickly withdrawn from state ownership through adoption of the appropriate rulings by the Committees for Administering State Property.

Basic principles of land reform are announced in the republics.

The lands of kolkhozes (collective farms) and sovkhoses (state farms) are declared the holdings of the workers, and reregistration of the land begins. The worker's right of free exit from the kolkhoz with his land holding and his share of accumulated property is guaranteed by law. Poorly utilized lands are confiscated for the creation on them of peasant farms. A market infrastructure in the sphere of purchasing, processing, storage, and the sale of agricultural output is formed at an accelerated pace. Land banks are formed.

Strict measures are implemented to set finances and monetary circulation right. In the course of the first 100 days it is necessary to reduce the deficit of the state budget to no more than R5 billion for the fourth quarter of 1990 and guarantee zero growth of the total money supply.

Toward this end, an inspection and examination of all articles of the expenditures of union, republic, and local budgets is carried out, emergency measures are taken to reduce expenditures in the fourth quarter of 1991, and union, republic, and local budgets are reworked for substantial savings in 1991. A reduction of no less than 75 percent of all types and forms of aid (besides humanitarian) to foreign states is ensured.

Financing of the USSR Ministry of Defense and the KGB is reduced by 10-20 percent; in particular, this is done through a sharp reduction in purchases of arms and in military construction with maintenance of the average wage for workers at manufacturing enterprises for a year. The material resources that are saved are sold on the open market.

No less than 30 percent of the savings from the reduction of expenditures on these goals is put toward increasing the wages of officers and construction of housing for servicemen, including those transferred to the USSR from other countries and discharged into the reserves.

A further reduction in production investments financed from Union and republic budgets takes place. New construction is halted with the exception of those facilities designated for an expansion of consumer goods, housing construction, and development of the social sphere. An inventory of all unfinished construction projects is taken.

New budgetary programs (more than R100 million) are not adopted for 1991 with the exception of programs to clean up the effects of the accident at the Chernobyl nuclear power station. All articles of the budget which exceed R100-500 million are confirmed by the USSR Supreme Soviet and the union republics individually.

It is declared that on 1 January 1990 payments of all grants and subsidies to enterprises are halted with the exception of a limited circle of enterprises included on a coordinated list.

Efforts are made to sell a portion of the debts of other states to the USSR on the world market.

All these and other measures are directed at maximum mobilization of all the resources of the state at the time of the transition to a market. And only once all opportunities in this direction are exhausted and the people are aware of this does the leadership of the state have the right to appeal to the people and ask for its patience, trust, and solidarity in the matter of pulling the country from the crisis.

No later than 15 October the system of the USSR State Bank is transformed into a Union Reserve System consisting of the central banks of all the union republics.

The banks of the Union Reserve System are legislatively barred from directly crediting expenditures of the budgets. Their deficits are covered by the sale of state securities under conditions that are acceptable to purchasers.

Under extraordinary conditions the president of the USSR may permit the Union Reserve System to grant the USSR Ministry of Finances no more than R5 billion of credit for a period of up to 12 months.

Allowance is made for a special reform loan at a sum of approximately R10-15 billion for a period of three months floated on a commercial basis among the population and abroad.

In the course of the first 100 days all state specialized banks are reorganized into joint-stock commercial banks. It is possible that one state bank will have to be preserved; with the support of the budget it would grant preferential credits to stimulate economic activity in the interests of the state.

Banking rates of interest for loans and deposits begin to increase. Money becomes "expensive" and acquires the attributes necessary for a medium of exchange in a market economy.

In November a stock exchange opens in Moscow.

By 1 December the loan fund is divided up, and settlements between banks are accomplished through a correspondent account. The separation of bank balances permits a transition to a normal mechanism of cash emission through the sale of bank notes to banks by written order. There is an opportunity to quickly and efficiently employ a number of tools for limiting credit, including a system of reserve requirements.

In this period many enterprises will already experience financial difficulties, for instance as a result of maintaining firm wholesale prices at this stage or of a shortage of circulating capital, especially with the high proportion of loaned assets in place of one's own assets. In order to help adapt enterprises to the new conditions, to give them the opportunity to accumulate their own circulating capital, and to find means to increase efficiency, the following is stipulated:

- immediate denationalization of such enterprises, issuance of stocks, and division of the enterprises into smaller units;
- creation of stabilized funds;
- development of commercial credit as an element of the new wholesale market in order to decrease the orientation toward bank credit;
- stimulation of the practice of issuing bonds to replenish circulating capital;
- the closing of 100-200 especially inefficient enterprises.

Taking into consideration the changeable nature of the market ties which form and the danger of disorganization of production during the transition period, a package of measures is undertaken to stabilize mutual deliveries:

1. Existing economic ties are certainly maintained until 1 July 1991 with regard to the orders of consumers and interrepublic agreements and treaties that have been concluded; strong sanctions for their nonfulfillment are

introduced; representatives of many of the republics have insisted on the absolute preservation of all economic ties until the end of 1991. Such an approach seems unrealistic to us. Freezing economic ties, including those above and beyond the state order, would lead to a serious slowdown in the development of market relations and free barter between enterprises.

2. Production is restored for 1990-1991 at enterprises which have been closed for ecological reasons and whose production is necessary for maintaining output of socially significant goods.

Ensuring production of material and machinery resources within the bounds of state deliveries of production for 1991 is entrusted to a State Contract System which is created on the basis of the organs of Gosnab ((State Committee for Material and Technical Supply)), the Ministry of Trade, and the Agrosnab ((Agro-Industrial Committee for Material and Technical Supply)). Deliveries of the remaining portion of production are organized using direct economic ties or through intermediaries—commercial wholesale enterprises.

3. In 1991 plans for wholesale and purchase prices and tariffs as well as the coefficients worked out for them by the USSR Goskomsen ((State Committee on Prices)) are considered unacceptable. The practice of using contract and free prices for production supplied through direct economic ties and wholesale trade will broaden significantly. The output of monopoly enterprises will be subject to state control.

Output supplied according to state orders is sold at prices determined when the orders are placed by agreement with producers, the main consumers, and wholesale trade enterprises.

Prices for basic types of fuel, energy, and raw-material resources are established by the state on the basis of multilateral negotiations between republics and are obligatory for all producers.

4. The state renounces administrative increases of retail prices. During 1991 a gradual removal of state control over retail prices is carried out with maintenance of existing prices for a number of critical goods forming the population's subsistence level.

5. It is considered necessary to change the methods of specially monitoring the uninterrupted operation of transportation. When needed, a schedule of special operations is introduced for railway transportation.

6. A market infrastructure is formed at an accelerated pace so that in 1991 it will already be able to bear most of the burden for regulating flows of goods.

7. A system for taxing enterprises is introduced beginning 1 January 1991. With the goal of developing budgets for 1991 on time, Union tax legislation is utilized for 1991 with amendments introduced by the union republics.

8. A coordinated system of quotas for hard-currency deductions is introduced. The system of restrictions and licensing for exports and imports and for foreign borrowing undergoes significant administrative changes with a substantial broadening of the role of the sovereign republics.

Beginning 1 November a unified rate of exchange for the ruble is established for trade and nontrade operations. Differentiated hard-currency coefficients are eliminated at the same time.

Protection of the ruble as the sole legal tender on the territory of the USSR is ensured. All forms of trade in foreign currency are forbidden. At the same time, a hard-currency market develops. No less than 5-10 major banks receive the right to trade in hard currency at market prices. Soviet citizens are allowed to save hard currency in banks. At the same time, foreigners are allowed to open ruble accounts.

9. On the basis of the aforementioned measures, the most favorable conditions are created for raising production of consumer goods and services, including using the opportunities of conversion, selling as personal and family property and leasing of enterprises of industry, trade, and the services sphere, creating small enterprises, and granting preferential credits and tax exemptions.

10. Measures are undertaken to contain the growth of income of the population, and prior to the end of 1990 existing tax controls on the growth of wages are maintained.

Efforts are underway to create a system of social support of the population, to form employment services, and to form services for statistical observation of price changes.

11. In order to beat down panic buying and not allow a significant increase in prices once they are freed on the first days of reform, a package of measures to stabilize the consumer market is put into place:

1) Interest rates increase in accordance with the population's deposits in the Savings Bank;

2) A portion of state property is sold (cars, military property designated for civilian use, etc.);

3) A portion of the capacity freed from construction for production purposes is used to build housing using assets of the population (redemption of new apartments, sale on credit). There are increased opportunities for individual housing construction. A portion of construction materials from the production sphere are redistributed for sale on the open market;

4) Construction of garages for owners of automobiles increases;

5) Allotment (and sale as property) of rural land plots increases;

6) Insurance of the population develops, and new types of insurance services appear;

7) The structure of imports changes—the portion of consumer goods increases. Nontraditional channels for selling imported products are used, leading to fewer opportunities for abuse.

Toward the end of the period of emergency measures it is necessary to accumulate necessary reserves of goods, in part by bringing order to the organization of off-premises trade [vyvezdnaya trgovlya] and by attracting as much foreign aid as possible.

12. New customs tariffs are introduced, allowing us to align the proportions of domestic and world prices and to limit the amount of licensing and restrictions on foreign trade operations.

The idea of the package of measures designated for the first 100 days is to succeed in reducing the budget deficit to planned levels and to implement successful measures to tie up the money supply. It is assumed that the actions of the union republics are coordinated and that the population demonstrates its trust. With these prerequisites it would be possible over a short period of relatively mild measures to convert the economy to a qualitatively different state and prepare it for the entry into the market.

However, if these prerequisites are not provided, far more severe and painful measures are required, and it is necessary to be prepared to apply them.

Days 100-250: Liberalization of Prices and Severe Financial Restrictions

After implementation of the emergency measures of the first 100 days, the situation in the national economy will change seriously. The population as well as enterprises and organizations of the majority of the sectors of the national economy will find themselves in new circumstances.

The task of the second stage will consist primarily of maintaining what has been achieved, easing the transition to the new conditions, consistently encouraging the positive potential of reform, and creating favorable conditions for the formation of a full-blooded market.

The main actions of this stage are to remove state price controls on a wide circle of output for production and technical use and consumer goods and services and to restrain inflationary processes by means of financial and credit policy. During this period the budget deficit must be reduced to zero with no change in the size of the total money supply. At the same time the scales of denationalization and privatization of small enterprises are broadened and a market infrastructure is intensively developed.

The first results of the emergency measures and the liberalization of prices show up in a noticeable improvement in the consumer market, especially with regard to

goods sold at prices of supply and demand. Prices will be higher than today's state prices but far lower than those on the black market. The more strictly and consistently measures are carried out in the realm of financial and credit policy to eliminate panic buying, the lower the increase in prices will be. Goods will be readily available. This is the first positive result of reform which may occur, and it must be achieved without fail.

In the process, an increase in the volume of sale of consumer goods through accumulation of reserves and foreign aid must play an important role. The rational distribution of commodity resources according to time of use and territory of the country will have substantial significance. The creation of special channels for their delivery and storage is required.

At the end of the first six months of 1991 indexation of income with regard to changes in retail prices is carried out. In the event that the price index exceeds a certain level, indexation may be preformed on the basis of the first quarter.

A consequence of the increase of the interest rate on loans, limitation of the money supply as a whole, and the introduction of a new tax system will be that producers will come up against a shortage of money and difficulties in selling their output. This will force them to pay more careful attention to the demands of the consumers, especially in unmonopolized sectors, and to support existing economic ties with steady customers. A decrease in barter will begin in instances where resources may be purchased at market prices.

The possibility of a decrease in the volume of production in a number of sectors should be taken into account.

In the first months of this period work is completed on the placement of state orders and distribution of output produced for it for the third and fourth quarters of 1991.

The removal of administrative control over prices on the next group of goods takes place with regard to the specific situation on the market and is accompanied by measures to regulate finances and credit. Further measures to reduce the budget deficit are undertaken.

The transfer of a significant portion of income from Union to republic and local budgets will lead to a situation where they have the task of deciding how the appropriate sums are to be distributed—by continuing to pay subsidies in the previous amounts or by reducing them, freeing prices, and compensating the population for the increase in prices through a system of indexation or other methods.

The union republics and local organs of power may temporarily freeze prices on goods in great demand in the event that they rise inordinately and introduce rationed distribution of a number of goods with compensation from their budgets to producers and trade for losses as a result of this process.

An active policy of denationalization and demonopolization of the economy, and encouragement of entrepreneurship is carried out.

Republic committees and a Union fund of state property intensify the process of denationalization of the economy. The number of joint-stock companies created on the basis of large state enterprises rises to 1,000-1,500 by the end of the period. The process of selling shares of restructured enterprises is invigorated and for the most part the proceeds go toward paying off the state debt. Along with the issuance of stocks, other forms of denationalization of property are applied: A one-time redemption, deferred payments purchase, leasing with subsequent redemption, and foreign investment.

The process of denationalization and privatization must be especially active in trade and food and consumer services where it is necessary to eliminate state monopolies as quickly as possible, create conditions for competition, and forestall the possibility of abuses in the distribution of commodity resources, such as the creation of an artificial shortage.

By the end of the period up to 50 percent of small production and nonproduction stores and food services stores may be privatized in various forms.

It is also necessary to quickly carry out the process of eliminating outdated administrative structures and disbanding monopolistic concerns, associations, and establishments constructed on the principle of horizontal integration where the technological ties between them are not rigid.

The first stage of land reform should be completed by spring of 1991.

It should be expected that, in connection with a possible increase in prices, enterprises will wish, under pressure of their workers, to compensate for the losses connected with this by increasing income. It is possible that there will be social conflicts which may force us to compromise. Inflationary pressure will be maintained as a result.

In order to forestall an undesirable turn of events, it will be necessary to secure social agreements concerning control over the growth of income as well as have in readiness a package of measures to consolidate control over the money supply which the president of the USSR could apply by using his emergency powers.

Days 250-400: Stabilization of the Market

The main task of this stage consists of achieving for the most part stabilization of the market of both consumer

goods and means of production while broadening the sphere of market relations and establishing a new system of economic ties.

The intensive process of denationalization continues. By the 400th day up to 30-40 percent of the basic fund of industry, up to 50 percent of construction and automotive transport, and not less than 60 percent of trade and food and consumer services should be transformed from state property to joint-stock companies, sold, or converted to lease holdings. Liquidation is completed for organizational structures which carried out the functions of administration for enterprises which have been transferred to new property relations.

The anti-monopoly policy is intensified. On the basis of legislation which has been adopted, the anti-monopoly organs of the Union and republics adopt rulings on the dissolution of the majority of administratively created production associations, concerns, and associations which may qualify as monopolies, and they establish control over the activities of technological monopolies.

During this period the majority of work takes place to create conditions for competition between domestic producers to the degree that it can be conducted without a major restructuring of production. Opportunities to do this will be limited in connection with a reduction in the volume of investments under conditions of severe financial and credit limitations.

Contradictory processes will take place in the economy at this time. On one hand, one may expect an increasing saturation of the economy with goods. The market infrastructure will develop at an accelerated pace, and the influence of entrepreneurship on economic activity will increase. Use of material resources should become more economical, and production reserves will shrink. Disengaged resources will replenish the market of production assets, and they will contribute to its stabilization.

On the other hand, it is possible that there will be an intensification of crisis phenomena summoned up by the dismantling of the command and administrative system, unstable prices, and restructuring of economic ties, as well as financial and credit policy. One should expect a worsening of the slump in production, especially in basic sectors, construction, and machinery construction, as a result of the curtailment of investment activity.

These phenomena must not be viewed as purely negative inasmuch as they will testify to the beginning of structural changes in the national economy in which the share of these sectors is significantly hypertrophied, in part because of the support of inefficient production. The developing processes of economizing on resources will limit demand for semi-finished goods.

At the same time, these phenomena will give rise to a deterioration of the financial situation and the ruin of a number of enterprises. The problem of employment will intensify, especially in regions dominated by mining and

heavy industry. The task of the appropriate organs will consist of helping not the enterprises that produce unneeded output and gobble up valuable material resources, but the people who work at them. The organs will have to ensure their employment, retrain them, and help them to adapt to the new conditions.

During this period the burden on state employment services and public works programs (which should have been prepared during the first stage) will increase. Support of small entrepreneurship should contribute to an increase in jobs.

Another course of events is not ruled out. Support of a severe financial and credit policy does not succeed. In this variant of development, inflationary pressure increases inasmuch as the situation on the market will favor an increase in prices on consumer goods, which in its turn will call up a wide demand to increase income.

The development of competition and entrepreneurship by this time may still have not achieved a scale enabling them to stabilize the market.

A stabilizing factor under these conditions could be a sudden broadening of the housing market, housing reform, as well as reform of wages, restructuring of relations between enterprises and local soviets in the social sphere, completion of the liberalization of prices, and the introduction of a domestic convertible ruble.

The creation of a housing market is a necessary element in the transition to a market economy. It permits entry into circulation of one of the most important goods able to absorb a significant portion of the population's effective demand, assisting in the long-term plan for balancing the consumer market and intensifying the stimuli of labor activity.

A restructuring of the wage system is also needed. The idea is to abolish regulation and establish a state minimum wage for enterprises of all forms of property ownership that would be based on a calculation of a minimum consumer budget with regard to the new level of living expenses and, on the whole, on a broadened circle of goods and services purchased at market prices with personal income. A realistic minimum wage will be an important means of social protection.

In coordination with these measures, the republics and local organs conduct efforts to take from the enterprises the excessive and unevenly distributed burden of maintaining facilities of the social sphere. The local soviets take upon themselves a significant portion of expenditures on these goals, connected primarily with construction of housing.

The necessary prerequisites for this will be established. As a result the entry of enterprises into market relations will be eased and their competitiveness is increased.

In coordination with the aforementioned measures, reform of pricing should be completed. State control over prices should be removed from approximately

70-80 percent of products and services by the end of 400 days. It is proposed to maintain control on basic primary resources (oil and petroleum products, natural gas, and some types of ferrous and nonferrous metals) and a limited list of critical consumer goods (some types of bread, meat, milk, sugar, vegetable oil, basic medicines, school books, transportation fees, and fees for several municipal services).

The prevalence of supply-and-demand prices in conjunction with a balanced budget creates the prerequisites for resolution of a key problem of the transition to a market economy—the problem of a domestic convertible ruble. The essence of the problem is to give the opportunity to all domestic enterprises and foreign companies operating on the territory of the USSR to freely sell and buy at market rates the hard currency necessary to carry out routine economic operations.

Domestic convertibility of the ruble opens wide possibilities for the influx of foreign investments which are so necessary to the country for restructuring and technical retooling as well as for developing competition on the domestic market and overcoming monopolistic practices. It may be stated that under the conditions of our country this is the decisive prerequisite for bringing the market mechanism to full speed at the next stage.

Important steps toward convertibility of the ruble are already made at the initial stage of reform, during the first 100 days. However, during this period it will still be quite limited in terms of functioning and categories of purchasers. This is connected with the fact that firm state prices will be maintained on the majority of goods and that the hard-currency market will only be making its first steps.

Introduction of convertibility of the ruble includes:

- development of a hard-currency market (hard-currency auctions, exchanges, and dissemination of hard-currency operations in the network of commercial banks);
- introduction and adjustment of new customs tariffs and taxes on exports which would ensure the approximate correspondence of domestic and world prices, in the process forestalling the possibility of speculation on the difference in prices; they would also permit a substantial decrease in the volume of restrictions and licensing.

Days 400-500: The Beginning of the Expansion

The basic goals of this period are to intensify stabilization of the economy and finances and speed up formation of the competitive market environment necessary for full functioning of the mechanisms of self-regulation that are proper to the market.

The center of gravity of work during this period falls on significant progress in denationalization, privatization, and demonopolization of the economy and on activating a structural and investment policy.

The prerequisites should be established for a noticeable intensification of economic activity, primarily in the sectors of light industry, the food industry, the agricultural sector, and sectors of the services sphere. On this basis will a way out of the economic (and structural crisis) be planned.

In the event of the successful implementation of the measures planned for the first 400 days, the situation in the national economy will change radically. By the end of the last stage practically all the basic conditions will have been created for the reliable functioning of the economy: Balanced prices and budget, a modern banking system, and a hard-currency market.

Denationalization and privatization are accelerated. By the 500th day no less than 70 percent of industrial enterprises, 80-90 percent of construction and automotive transport, wholesale trade of output for production and technical uses, retail trade, and food and consumer services should be transformed from state property to joint-stock companies, sold, or converted to lease holdings. Funds and Committees of State Property sell off shares belonging to the state to corporate bodies or physical persons either directly or through special companies.

Republic and local organs of power carry out an anti-monopoly program: Support of small enterprises is intensified, and secondary production lines are spun off to become independent enterprises and are developed. Foreign competitors begin to operate on the domestic market. Customs tariffs protect domestic producers.

Conditions which have arisen after development of housing reform will contribute to the formation of a labor market. Registration will be repealed. Amendments to labor legislation will be introduced. Creation and consolidation of independent trade unions as the defenders of the interests of the worker and unions of entrepreneurs and administrators must be encouraged in every possible way. On the basis of agreements between them under the regulating role of the state, the creation of a mechanism for organizing the labor market and social control over changes in income and prices is possible.

Development of a financial market leads to the need to introduce a tax on income from securities and from transactions with them.

As competition, entrepreneurship, and stabilization of prices develop, the opportunity to soften the pressure of financial and credit limitations grows. A reduction in taxes on profits is proposed; it will contribute to an increase in business activity. One should also expect a decrease in the level of interest rates and reserve demands of the Union Reserve System. This will permit an increase in the size of investments.

Large-scale restructuring of the economy develops; the economy now has the opportunity to rely on the market

mechanism and on attracting foreign investments, technology, and management experience. It will take a long time, but by the time the Program is completed the real prerequisites for an expansion of the economy will have been created.

In this manner and as a result of implementing all these measures, in a short period of them the foundations are laid for a new economic system which, without extraordinary measures on the part of the state, will orient production toward satisfaction of personal and social demands, create effective incentives for labor and entrepreneurship, ensure saturation of the market with various goods at stable prices, and lay the foundation for the prosperity of the country and of all the peoples living in it.

The following sections give a more extensive characterization of the Program's planned measures in passages.

5. Mechanisms for Maintaining Production Stability in the Transition Period

Priority Measures

The breakup of the economic ties which have taken shape represents a great danger at the present time and is even now having a negative effect on production. The disarray of the monetary system and the decline in the purchasing power of the ruble have led to a conversion to in-kind exchange and the increased exclusiveness of the republic and the regions, the intention being to tackle tasks of their provision with material resources and commodities independently. This is introducing chaos to the economy, disorganizing established relations, complicating production's material and technical supply to the utmost and is fraught with the danger of an economically unjustified recession.

Intensive work is being performed within the framework of the current system on determining the extent and makeup of state orders and their provision with material resources, the linkage of enterprise plans and the conclusion of contracts for 1991. This work is being disorganized to a considerable extent by the unresolved state of questions of pricing reform and the system of the formation of economic relations.

A restructuring of the system of economic relations is essential inasmuch as this system is irrational and inefficient. However, spontaneous restructuring is, as practice shows, too painful and is accompanied by big losses.

For the purpose of maintaining production stability it is essential:

1. To adopt a concerted decision on the continuance of the current economic relations with regard for consumers' orders through 1 July 1991. To provide for strict penalties for a disruption of these supplies, up to and including criminal penalties.

2. To make it incumbent upon state-run enterprises to have prior to the end of 1990 secured a supply volume at a level no lower than stipulated by the contracts which have been concluded.

3. To restore for 1990-1991 processes at enterprises closed down on environmental grounds whose product is necessary for maintaining the manufacture of socially significant commodities.

4. To entrust the placing of state orders and the provision of production with material and technical resources within the limits of the products to be supplied in respect thereof for 1991-1992 to a State Contract System.

5. To recognize as unacceptable the application of the plans for wholesale and purchase prices and rates and also the coefficients thereto devised by the USSR State Committee for Prices. Contracted prices controlled by the State Contract System will be applied upon the conclusion of business contracts within the limits of the state order for 1991.

6. To employ methods of special supervision of the continuous operation of transport. If necessary, to introduce special operating conditions in railroad transport.

7. To shape market relations and a market infrastructure at an accelerated pace in order that it might in 1991 even be capable of assuming the bulk of the burden in respect to the regulation of commodity flows.

8. To amend the legislative instruments which have been adopted, the intention being to increase the incentives to economic assertiveness and enterprise.

Economic relations in the economic system will be stabilized to a considerable extent by extraordinary measures pertaining to a recovery of finances and monetary circulation.

The State Order and Prices

The state order remains for the transition period a form of direct state regulation of economic relations. However, there will be a cardinal change in the form and terms of placement thereof.

Its original meaning will be returned to the state order: it will become contractual. The terms of the contract will make it possible to eliminate the disadvantageousness of the state order for enterprises of all forms of ownership. Agreements for the execution of state orders will as of 1991 be concluded by State Contract System authorities and the manufacturer-enterprises as master contracts in relation to the contracts concluded between the producers and consumers of the products.

The master contracts will determine the consolidated list and volume of the supplies and their consignees, the parties' mutual commitments and penalties for their nonfulfillment and also the contracted prices and the terms of their adjustment in the course of fulfillment of the contract.

At the same time, however, the binding nature of the state order with penalties for a refusal to conclude supply contracts will persist for the transition period.

The advantageousness of the state order for the producer is ensured by:

—the contracted price;

—material resources within the limits of the list of products in respect to which state orders are placed in amounts determined by the master contract;

—a profits tax abatement of the order of 1.5-2 percent of the cost of the products to be supplied per the state order. Computation of the abatement from the full cost of the products is the simplest way, and it will increase appreciably the profit remaining at the enterprises' disposal.

The volume and composition of state orders for products geared to the needs of defense, organizations of the nonproduction sphere of union significance, special consumers, export supplies pertaining to intergovernmental agreements and to the replenishment of commodity reserves are determined at the union level. In addition, union authorities formed with the participation of representatives of all the republics will draw up multilateral contracts for reciprocal supplies in respect to the most important types of fuel, raw material and intermediate products and consumer goods with concordance of the prices at which these supplies will be made.

The volume and composition of state orders determined at the union level, as a result of agreements which are reached, will be conveyed to the republic contract systems. The full extent of state orders will be determined here with regard for the latter and also interrepublic agreements and the republic's domestic need for products which has not been satisfied by means of purchases on the market.

Particular significance is attached to determination of the contracted price of the products supplied in accordance with state orders. Considering the low quality of the new price lists which have been conveyed to the enterprises and also the readjustment coefficients thereto, it is proposed switching to the establishment of contracted wholesale prices at the time of the placing of state orders for 1991 even. Fixed state prices are preserved for fuel and power, raw material resources and a limited list of other products, as agreed between republics.

It is intended that the contracted prices and also the terms of their adjustment will be approved by the State Contract System authorities placing state orders as a result of negotiations with the producers, the principal consumers and wholesale enterprises with regard for the magnitude of the costs, the price lists and the level of market prices, if known. The establishment of contracted

wholesale prices linked with the placing of state orders will be an important component of the reform of pricing here.

Such state orders and prices may equally be used to regulate the producer goods, agricultural product and consumer goods market.

The State Contract System

The placing of state orders, distribution of the products supplied in respect to them, determination of contracted prices for the latter and the conclusion of the pertinent master contracts will be undertaken by State Contract System authorities formed as of the fall of 1990 at union republic and union level with the resources of the Gosnab [State Committee for Material and Technical Supply], Ministry of Trade and Agrosnab. It will in the transition period perform the functions of state intermediary and will have the necessary authority for this.

The State Contract System authorities are detached from the commercial wholesale enterprises operating independently. Relations with these enterprises will be organized on a commercial basis.

Territorial authorities with commodity departments directly in charge of the placing of state orders and product distribution and also subdivisions coordinating their activity in respect to material support for state orders will be created within the State Contract System.

The volume and composition of state orders will be determined by the republic and union contract system authorities.

The following outline of organization of the operation of the State Contract System authorities is proposed.

Enterprises, availing themselves of the services of intermediary wholesale enterprises, will independently form stock orders and production plans, place orders and conclude business contracts. If as a result of this work it is discovered that it is impossible placing orders for some types of products or it is not possible firing up capacity, that is, market relations do not operate, they will turn to the territorial authorities of the State Contract System, communicating to them the appropriate information.

The State Contract System will thus operate in accordance with the rejection principle, not impeding the development of market relations.

The volume and composition of state orders and the republics' reciprocal supply requirements will be determined at republic authority level on the basis of this information. Bilateral and multilateral interrepublic contracts will be prepared on the basis thereof.

On this basis the republic and territorial authorities will perform the work pertaining to the placing of state orders, the establishment of contracted prices and the allocation of material resource quotas. The work will be performed with the participation of the manufacturers,

the principal consumers and the wholesale intermediaries representing the interests of the small consumers. The extent of state orders should be as little as possible lest it depress the development of market relations.

For 1991 the contract system authorities are endowed with the right in special instances to terminate or suspend contracts between enterprises concluded earlier, when in the interests of the economy the need for a reorientation of the unfolding commodity flows arises.

In order to prevent unwarranted decisions of this kind the enterprises are accorded the right to dispute them in an arbitration tribunal, which may either reverse the decision of the contract system authorities or recover damages from them for the losses caused the enterprise.

In the initial period the contracted prices at which products manufactured in accordance with state orders are sold will be lower than the market prices, although should not be separated from them by much. In fact, these products could be somewhat cheaper for the consumers also, which would give them an interest in applying to the State Contract System. But it could increase the price increment for the services provided to the point where it is cheaper for the consumer to acquire the requisite commodities on the market.

Thus the mechanism of the formation of state orders "by rejection" described above plus the policy of contracted prices will stimulate an expansion of the sphere of market relations and a reduction in the volume of state orders ultimately to the extent of the purchases needed directly by the state and financed from the budget.

The control of monopoly manufacturers by means of regulation of the price of their products and the compulsory attachment of consumers could also be exercised via the State Contract System.

The Consumer Market

The sphere most sensitive to interruptions in supplies and in need of special measures to prevent them in the transition period is the consumer market.

The staged liberalization of the prices of consumer goods and services could lead to certain groups of the population being deprived of the possibility of acquiring a number of vital necessities. This also will require the adoption of the appropriate measures on the part of the republic and local authorities.

It is necessary in this connection to operate in accordance with the following basic directions:

- 1) The accelerated demonopolization and denationalization of retail and wholesale trade, public catering and consumer service and also of a considerable number of the enterprises supplying them with commodities.

Trade has the largest number of small businesses, but the monopolization here has a clearly expressed organizational character. It creates particularly propitious soil for shadow economic activity.

The administrative structures which operate in the middle tier and which handle bookkeeping, payments and planning for the entire network subordinate to them are to be reorganized or eliminated with regard for the requirements of anti-trust legislation.

2) The mobilization of commodity reserves and the creation of the conditions for regulation of the consumer market by means of commodity interventions.

In respect to nonfood commodities and also a number of food products from 3 to 7 percent of commodity turnover may be held in reserve in the 4 or 5 months prior to the liberalization of prices for the corresponding group of commodities.

Certain reserves may be stockpiled thanks to a reduction in off-premises trade and other forms of the distribution of nonfood consumer commodities. The following were sold by these channels in 1989: 11 percent of footwear, 14 percent of refrigerators, 31.5 percent of sewing machines, 10.5 percent of color television receivers, 19 percent of washing machines and 14 percent of furniture. A substantial amount of reserves may be stockpiled in the last 4 months of 1990 from these sources.

It is essential to make the maximum use to this end of foreign aid.

Under current conditions the concentration of the reserves and the delivery of the merchandise and its storage could require special channels and resources. People's deputies of all levels and worker control could join in this work.

3) Use of the mechanisms of state orders and prices and the contract system could ensure preservation of the production volume and prevent a significant decline in the manufacture of consumer goods; in order to ensure the sufficiently even distribution of commodity resources around the country it would be expedient to create at the union level of the State Contract System an Interrepublic Commodity Council of empowered representatives of the union republics;

4) The application, if need be, at city, region and republic level of the normed distribution of a limited basket of basic necessities as a guarantee of their minimum consumption.

Local authorities have accumulated considerable experience in this sphere in recent years. It would seem that it will in the transition period be necessary in order to prevent considerable losses for the population or individual strata thereof to make use of the accumulated experience with regard for local conditions as a supplement to income-indexing.

It is expedient to recommend the application of the normed distribution only of a small range of food products and other basic necessities in the minimum quotas in the event of a shortage thereof in order that commodities be acquired over and above these quotas at market prices in the commercial trade network. Fixed prices, subsidies for which are paid to the trading enterprises from the local budget, may be applied at the time of normed distribution. Another, more flexible, option is food stamps for the acquisition at a discount of a particular sum of a basket of merchandise with the right of choice. A discount of the order of 50-70 percent of the market price would also be reimbursed from the local budget. To cover expenditure to this end the local authorities could introduce a specific tax on individuals' income or use other sources. Food stamps would be issued only to individual groups of the population.

5) Stimulation of the activity of the consumers' societies, commodity-purchase cooperatives and other trade enterprises pertaining to the delivery and sale of merchandise in regions in which problems with supplies to the population arise.

All the said measures are of a temporary nature and should be introduced for a particular period of time and canceled as soon as a stabilization of the market and prices is achieved.

Stabilization Funds

In the course of the transition period many enterprises will as a consequence of strict monetary policy experience serious financial difficulties, not through their own fault but on account of uneven price dynamics and for other reasons included. It will, as a whole, take time for adaptation to operating under the conditions of strict financial curbs.

The difficulties associated with this will be mitigated by means of the creation of special stabilization funds, which will render the enterprises temporary financial assistance in the form of direct subsidies, the subsidizing of preferential loans, credit guarantees and the granting of repayable credit at low interest.

The monies for stabilization funds at union and republic level will be formed from special budget appropriations, the proceeds from the sale of bonds and lotteries which they organize.

Financial assistance from the stabilization funds will be rendered on certain conditions. The funds have a right to consider only requests substantiated in detail of state-run enterprises really affected by the new economic policy and to demand of the applicants any information. The rendering of assistance may be made conditional upon a reorganization of the enterprises, a change of management, a reduction in unproductive expenditure and the numbers of the personnel, the selling off of surplus stock and equipment, reprofiling, division of an enterprise into two and more and so forth.

Highly qualified experts analyzing the operation of the enterprises and preparing recommendations for the funds will be enlisted in work in the funds.

Accelerated Formation of the Market Infrastructure

The formation of the market infrastructure and the utmost support for any initiative in this sphere should be regarded as a priority task at all levels. The main areas of work are:

1. The development of a network of commercial wholesale enterprises for trading in both producer goods and agricultural products and consumer commodities. Their denationalization and privatization by means of leasing, the sale of the fixed production capital of the present organizations of the Gossnab, Ministry of Trade and the Agrosnab and their conversion into joint-stock companies;
2. The encouragement of the emergence of new trading and purchasing cooperatives and all other enterprises in this sphere;
3. The formation by the spring of 1991 of a network of commodity exchanges for wholesale trade in various groups of commodities in conjunction with the raw material for their production; approval of regulations governing the commodity exchanges. An increase in the number of fairs and a change in the procedure of their operation;
4. Encouragement of investments in the market infrastructure, in the construction of depots and warehouses, commercial information networks and premises for the exchanges and fairs included. The transfer for this purpose of available suitable premises. The development of a system of agricultural produce repositories directly on the farms is particularly important.

Section II. Content of the Basic Blocks of the Transition Program

1. Denationalization and the Development of Competition

Support for Enterprise

A most important task of the initial stage of the transition to the market consists of the creation of the proper conditions for the development of the key figure of market relations—the entrepreneur. For many years enterprise was not valued here but punished. Now it has to be acknowledged that the sole resource on which we can count upon transition to the market is the potential of human assertiveness based on people's aspiration to secure for themselves normal living conditions.

Joint-stock, leased, private and state-owned enterprises should participate in competitive struggle on the markets on an equal basis. No ideological considerations may stand above the efficiency of social production.

The extraordinarily high degree of monopolization of the Soviet economy which took shape as a consequence of the policy of many years' standing of the concentration and narrow specific-item specialization of production and the formation of hierarchical structures inherent in the administrative-command system will be a principal obstacle to the formation of the market and the development of competition and enterprise. Whence the exceptional importance of the demonopolization of the economy and the need for implementation of a large-scale anti-trust program.

The republics will adopt programs to stimulate enterprise.

The first steps of these programs will be clear legal guarantees to free enterprise (guarantees against nationalization, expropriation and discrimination). A system of legal instruments providing for the development of individual (private) enterprise, joint-stock companies and cooperatives will be adopted for this. General guarantees are provided at the union level (the USSR president's edict "Freedom and Protection of Enterprise"), and specific legal instruments are being adopted at union republic level. The appropriate additions and revisions to the constitution will be submitted by the USSR president at the Congress of People's Deputies of the USSR.

In the first very first days of realization of the program the union republics will, following mutual concordance, present for approval by the USSR president lists of types of activity which are prohibited on the territory of the USSR or which represent a government monopoly, involvement in which is permitted upon acquisition of a government license. In respect to all other types of activity the principle: "All that is not prohibited is permitted" will operate.

By 10 October the union republic supreme soviets will have made the necessary revisions to the civil codes, the codes of civil procedure and the criminal and administrative codes in order to have removed all legal restrictions on entrepreneurial activity. An amnesty for persons serving time under articles of the criminal codes which are to be annulled will be announced. New articles of the criminal codes strengthening protection of the rights of ownership will be adopted and, possibly, republic public funds, whose activity will be geared to this end, will be created.

Republic laws (regulations) governing the procedure of the creation and the status of enterprises, nonprofit organizations included, the procedure of the commencement of their activity, reorganizations and bankruptcies and the responsibility of the owners of the enterprises will be enacted and changes to the republic codes of labor laws and other documents, which will regulate the rules of the private hiring of manpower, will be made.

No later than 1 November the republic central banks will confirm the rules for the extension of credit for the commencement of entrepreneurial activity and the rules

of banks' deposit transactions and determine the rules of the extension of credit to private individuals for the purpose of stimulating the creation of new businesses.

Instruments governing the legal economic position of foreigners in the USSR and the protection of foreign investments on USSR territory, coordinated among the republics, will be adopted.

The "superior organization" concept for state-run enterprises, which will become independent managing subjects bearing the fullness of responsibility for the results of their activity, will disappear.

Uniform rules for all enterprises of bookkeeping and accountability approximating world practice as closely as possible will have been adopted by the start of 1991. The form and procedure of the annual publication of balance sheets of all enterprises will be confirmed, which will make it possible to extend glasnost to the results of their activity.

All this will make it possible to create a base for the development of enterprise, which will be the fulcrum of implementation of the entire economic reform.

Denationalization

Denationalization must be of a comprehensive nature and encompass simultaneously large-scale industry, small and medium-sized enterprises of trade, industry and services, housing and housing construction and land reform (about the latter in the appropriate sections). The laws regulating property relationships must be of a universal nature.

From the first day following confirmation of the program of transition to a market economy denationalization and the privatization of property will unfold on the following basic principles:

- the participation of broad strata of the working people;
- separation of the functions of management and ownership;
- payability;
- diversity of forms and approaches, regional included;
- orientation toward the elimination of monopolies;
- priority for enterprises displaying initiative in denationalization.

The main task of the preparatory stage (up to 1 October 1990) is the formation of a clear-cut program of privatization and the enactment of a package of laws on denationalization. This package should incorporate laws regulating the denationalization process and providing for the independence of small firms in all spheres of the economy and the newly created structures—joint-stock companies—of organs of administration of any level.

The elaboration of the directions of the comminution of industry and anti-trust policy in the sphere of trade and services will be completed in this period. Principles of support for competition will be formulated. Auditing firms, authorities supervising the commodity and stock markets and monitoring prices and taxes and an arbitration tribunal and/or industrial courts will be formed. An important criterion of the quality of legal and institutional support for the reform is their compatibility with their international counterparts.

Denationalization will be carried out under the leadership of the republics' state property management committees, the USSR State Property Fund (SPF) and the local authorities.

Differences in local conditions will be expressed in the specifics of the forms and methods and scale of privatization in each republic, given preservation of the community of principles of denationalization.

In the first month of the reform (by 15 October) the republic governments will together with the USSR State Property Fund adopt a decision on the delineation of authority in the pursuit of enterprise denationalization—not on division of the property but on distribution of the responsibility for conducting this operation.

A very small group of enterprises and organizations should remain under the direct jurisdiction of the union organs of administration: defense plants not subject to conversion, enterprises connected with the use of nuclear technology, produce distributors, long-distance communication lines, military facilities of the USSR Defense Ministry and the USSR KGB, main railroad lines and certain others. Such enterprises as the postal service, the telegraph office and the common power system will also remain under direct state control for the next several years. The status of such enterprises must be confirmed prior to 1 January 1991, and they must conclude agreements with the republic and local authorities on the reservation to them of rights pertaining to the use of resources (land, water) as of the actual state of affairs on this date.

The denationalization of major enterprises in such sectors as aerospace industry, instrument-making and communications facilities, electronics, shipbuilding, the ocean-going fleet, ports of union significance and certain others will be organized at the union level. The preponderant form of such enterprises will be the transrepublic joint-stock company, whose stock will be distributed among the republic state property management committees. The list of enterprises to be converted into transrepublic companies and the principles of the division of shares will be agreed by all the union republics.

Delineation of the authority pertaining to denationalization of the rest of the property on the territory of the republics between republic and local authorities is evidently the prerogative of the republics. The local authorities will undertake denationalization and privatization

in such spheres as trade, services, public catering, agriculture, local and municipal services, motor transport and small industrial enterprises.

By 1 November the USSR SPF, the republic state property management committees and the local soviets will have published lists of the enterprises (in accordance with the decision on delineation of authority) to be denationalized. Within a month the workforce of these enterprises may propose its forms of denationalization (leasing, redemption as collective ownership, conversion into a cooperative and so forth), which will be examined by the appropriate authorities. Subsequently the state, as the proprietor at the moment of the commencement of this reform, has the decisive say in respect to form of denationalization.

Construction and construction materials production, motor transport, services and public catering, trade, light and food industry and supply and sales organizations are selected as objects of priority direct denationalization. Denationalization in these spheres should be carried out as quickly as possible.

The speed and forms of privatization of small businesses of various sectors of the economy will be determined locally.

The main form of denationalization of such enterprises should be their sale via deferred-payment auctions to private individuals or groups of persons with the subsequent creation on the basis thereof of private enterprises or a variety of partnerships. Nor can the possibility of the leasing with the subsequent redemption of these enterprises to both individuals and the workforce be precluded.

The auctions should be staged publicly in order for the attention of the public to be attracted to them and for financial and public control of denationalization locally to be exercised. For the success of such auctions the republic state property management committees should by 15 October have approved model regulations governing the rules of the staging of auctions and the enterprise valuation procedure and regulations governing their redemption or leasing.

In foodstuffs trade it would be expedient to sell small businesses with a trading area of 100 square meters and less and up to seven employees into private ownership. This would mean the departure from the state sector of 68 percent of food stores, 30 percent of the commodity turnover in respect to this group of commodities and 500,000 employees. It is essential to have completed no less than half this work by the spring of 1991.

The remainder of the trading network belonging to the state is to be converted into joint-stock, cooperative and collective enterprises.

In terms of trade in nonfood commodities stores with a trading area of 160 square meters and less employing up to 10 persons are to be privatized. Approximately 77,000

trading enterprises with 700,000 employees selling approximately 30 percent of nonfood commodities will be switched to private ownership here. Their withdrawal from state ownership should be commenced this year.

By the end of 1991 it is contemplated having left in the hands of the state only the trading network via which the normed distribution of certain basic necessities is effected. The stocks of large-scale trading enterprises, which could operate on "row of stallholders" conditions, with the leasing of trading areas to various users, including production enterprises, cooperatives and foreign firms, could remain municipal property also.

Wholesale enterprises with depots and warehouses are to be denationalized also. Measures against their monopolization of wholesale turnover must be provided for.

Actions pertaining to the liberalization of prices and the denationalization of production enterprises must be synchronized with the denationalization of trade to prevent a possibility of the stifling of market trade by manufacturers and the bureaucratic machinery of the state sector.

In public catering the small-scale network with room for up to 50 persons and an average number of employees of up to five persons is to be sold off first and foremost. This will amount to approximately 50,000 enterprises, up to 60 percent of the seating area and up to 60 percent of the commodity turnover in this category of trading enterprises.

The bulk of property of small dimensions should be privatized within 500 days. Given the successful organization of this process, by the end of 1990 up to 20 percent of enterprises of this group may have been taken out of state ownership, by mid-1991 their number will have increased to 60-70 percent, and by the end of 1991, to 80 percent, that is, by this point in time denationalization in the said spheres may be deemed complete.

Practice has shown that the denationalization of large-scale state-run enterprises is most efficient in the form of the creation of independent joint-stock companies, which will lead to an abrupt increase in responsibility for the decisions which are made, in the financial sphere particularly.

At the same time, however, the creation of a system of large-scale modern joint-stock companies will require far more time and personnel and more organized and coordinated preparation since this process must be tied in with the process of the reorganization of the system (and structure) of individuals' savings, major changes in the credit and finance system, the gradual formation of securities markets and large-scale investments of capital from abroad.

This work presupposes:

—the creation of groups of specialists for converting specific enterprises;

- property valuation: balance sheet value and reduction or addition on account of various factors (including location);
- valuation of fixed capital (age, wear and tear, importation origins, possibilities of replacement in ruble terms, possibilities of technology reorientation); trademarks and S&T potential and product competitiveness given a broadening of imports;
- economic analysis: whether it is necessary to divide the enterprise into several, what assets, surplus stocks and equipment to take into direct state administration for subsequent sale;
- analysis of the state of the market: competitors inside the country, location of suppliers and consumers, sales market prospects, dynamics of product prices and production factors, export potential;
- preparation of the company statutes, determination of the capital and other specific parameters;
- determination of the structure of the firm and its reorganization (commutation, redistribution of assets);
- determination of the structure of internal management (allocation of rights and responsibility between management and the board of directors);
- determination of the structure of the proprietors (the workforce, foreign investors, management, distribution of blocks of shares among institutional owners, apportionment of blocks of shares for free sale) and search for potential founders and investors;
- allocation of financial resources to compensate the employees due to be released; development of ideas for job-placement and early pensionable retirement;
- concordance with the Fund (Committee) and supervisory authorities (for securities and others) of the given version of the formation of joint-stock companies and privatization and calculation of the stages and the timing;
- registration of potential investors;
- determination of the market price of the stock and the system of sale;
- sale of blocks of shares.

Even given a compression of the timeframe of all stages and the enlistment of all the specialists in the country, the rapid formation of joint-stock companies from the bulk of the industrial enterprises is impossible. It is essential not only to train personnel for this purpose in the country ahead of time but as of the fall of 1990 even to send for training overseas capable people for a term ranging from several months to several years in order to have a regular influx of personnel for roles and offices determined in advance.

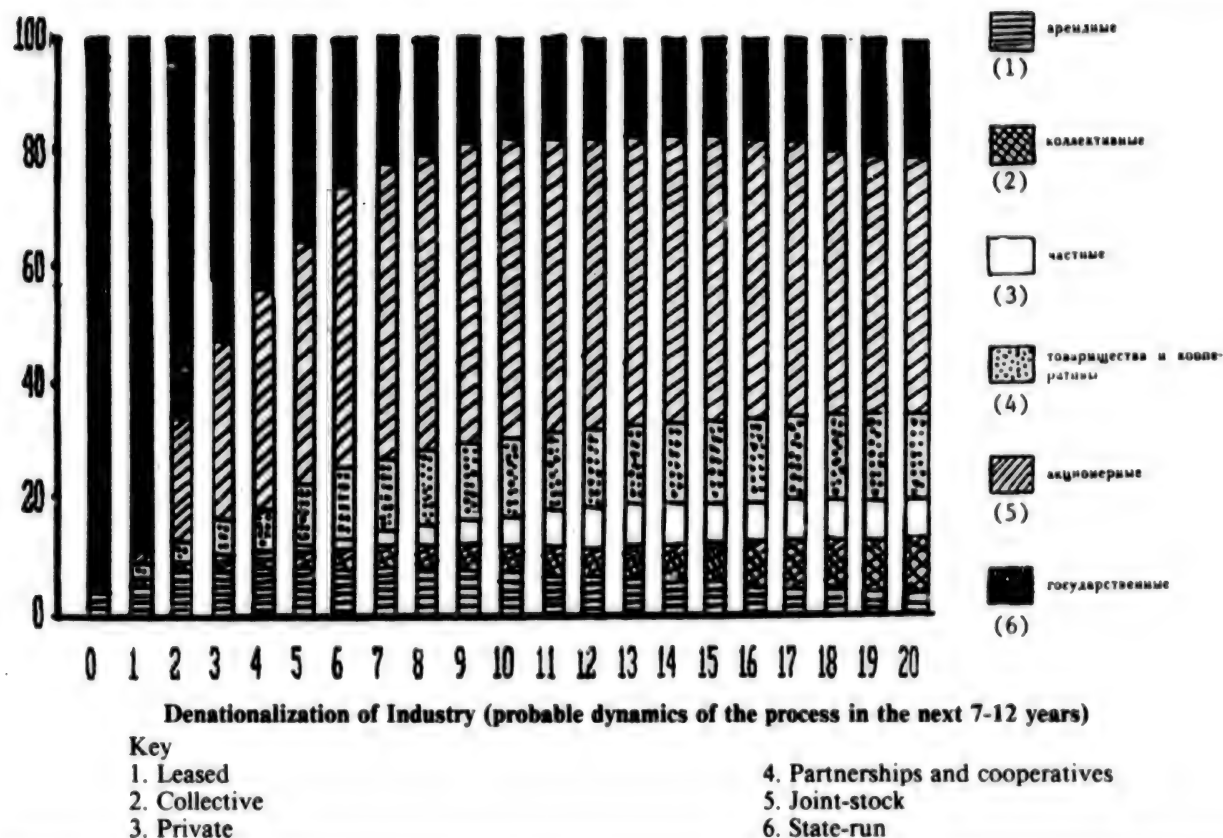
Several dozen enterprises of various sectors may be converted at the first stage of the program to gain experience and perfect the system of operation and, finally, standard packages of documents for various types of activity (extractive industry, light and food industry, mechanical engineering, publishing) created. It is at this stage that the approaches to the denationalization of property in individual republics will be determined. The choice of forms and methods of denationalization (from the formation of joint-stock companies through privatization) is connected with the sociopolitical situation in the country, national traditions and the availability of spare cash savings among the population.

The instrument of the formation of joint-stock companies and privatization under our conditions should be **Investment Funds (the Funds)**, which will be created by the republic state property management committees or the USSR SPF for the direct realization of the process of the creation of joint-stock companies, disposal of the blocks of shares belonging to the state and the exchange and sale of the shares of other enterprises. The funds will exercise the rights of owner of the controlling block of shares, but will not interfere in the enterprises' day-to-day economic activity. The funds will be formed on the basis of a particular group of enterprises in accordance with the sectoral (regional) principle or some other principle acceptable from the Committee's viewpoint.

In the period 1991-1992 the Funds will undertake the formation of joint-stock companies from the enterprises and subsequently, depending on their statutes, may sell or transfer to other ownership up to 100 percent of the stock of these enterprises. Each fund will develop a medium-term plan pertaining to the sale of stock approved by the Committee. Stock will be sold to the enterprises and the citizens to the maximum possible extent within the first 500 days even. The advantage of this version is the speed of activation, the drawback—the nonequivalence of the true (market) value of the stock of various enterprises given implementation of the operation within a compressed timeframe.

Given the underdevelopment of the country's financial system, the Investment Funds may exchange blocks of shares between enterprises, banks and other funds. In time the funds will be transformed into different financial institutions (investment banks, finance companies and so forth) controlling large blocks of shares. The funds will be the actual holders of the republics' shares of stock in the transrepublic companies.

The stock may be sold on deferred-payment terms, on credit or with the involvement of credit guarantees of the Investment Funds and the banks participating in the privatization process. Provision may be made for the transfer of certain facilities or blocks of shares free of charge or with payment at a particular price in the future. In cases where there are no parties wishing to acquire and obtain on an exchange basis the stock of particular enterprises, the transfer of the enterprise by contract to one or a group of managers for an indefinite



term for full economic administration analogous to leasing to the workforce (with the right of subsequent redemption) is possible.

The proceeds from the sale of the stock and part of the assets of the enterprises being converted into joint-stock companies go to the state property management committee and its funds, which pay off thanks to these the debt load and the expenditure on compensation to the employees to be released. All or part of the funds may concentrate the financial resources from the sale of the stock for subsequent formation into joint-stock companies and conversion into investment banks.

Particular attention will from the very outset be paid to the attraction of foreign capital at the time of privatization (the direct sale of stock, the offering of shares to discharge debts).

Financial Aspect of Denationalization

The participation of the enterprise workforce in the acquisition of stock is of independent significance. Enterprises are the property of all of society, and rights of their outfits are important, but not self-contained. At the same time, however, the working people's participation in management of the enterprise in respect to labor relations is provided for by all forms of enterprise legislation. The funds may transfer up to 10 percent of

stock to the enterprises for the sale or transfer on preferred terms of the stock of their enterprises to members of the workforce for the purpose of converting it into full shareholders. Exchanging the shares of the workforce for common stock with a vote will, possibly, become desirable or essential even.

The current balance-sheet data on the value of property do not, even if account is taken of the extent of wear and tear, reflect the market valuation of an enterprise. The uncertainty factor pushes initially in the direction of a lowering of the price of the stock. This will stimulate the purchase of property, although will reduce earnings from the sale of the securities.

In the country as a whole up to 46,000 enterprises of industry and approximately 760,000 of trade are potential candidates for denationalization and privatization. The accumulated amount of fixed capital in the USSR had by the start of 1990 reached almost R3 trillion, of which approximately R2 trillion were in production capital (approximately R850 billion in industry). Even with regard for its considerable wear and tear (33 percent in respect to the national economy and 45 percent in respect to industry) and mass inefficiency, this is a huge amount—R1.959 trillion in the country as a whole, including R469 billion in industry. This constitutes R7,000 per capita or approximately three average gross

per capita incomes. In terms of full value 45 percent of fixed capital is concentrated in industry, 19.6 percent in agriculture, 17.9 percent in transport and 4.5 percent in construction.

The potential monetary demand of the population for property is put at R100-R150 billion. Competition for the purchaser's ruble could in fact take shape between different types of property: housing, land, the production assets of small businesses of various sectors of the economy and the stock of newly formed companies and also government bonds. A summary investment by the citizens of new savings in 1991-1992 (annually) of a total of R50-R60 billion may be anticipated.

The resources obtained from the sale of stock by the republic state property management committees, minus costs and monies remaining at the disposal of the committees, will be withdrawn from circulation (annulled). Up to 10 percent of the resources obtained from the sale of enterprises by the local soviets will be channeled into the local budgets, the rest also will be withdrawn from circulation.

Overcoming Monopolism

A most important task of state regulation of the economy is to combat manifestations of monopoly practice.

According to USSR Gosplan data, almost 2,000 products with a total value of R11 billion are manufactured at a single enterprise, and the proportion of monopoly production in the machine-building complex constitutes in terms of production volume 80 percent. According to information of the USSR State Committee for Statistics, there are in machine building alone 166 monopoly enterprises and 180 monopoly processes; in 209 of 344 consolidated commodity groups of industrial output the share of one major manufacturing enterprise was in excess of 50 percent of the total manufacture of this output, and at 109 enterprises this proportion amounted to 90 percent. If specific types of product are examined, the level of monopolization is even higher. For example, 96 percent of the manufacture of mainline diesel locomotives is concentrated currently in the "Voroshilovgradteplovoy" Association, 100 percent of home air conditioners, in the "Bakkonditsioner" Association, 100 percent of well pumps, at the Baku Dzerzhinskiy Plant, and so forth.

The new organizational structures—concerns, intersectoral state associations (MGO), economic associations, consortia and so forth—are frequently being formed per the monopoly model. Thus the "Agrokhim" Association (the former Ministry of Fertilizer) is a pure monopolist, and the "Energomash" and "KvanTEMP" MGO account in the all-union manufacture of hydroturbines and steam turbines, galvanic cells and batteries for one-half and two-thirds respectively.

The most powerful impediment to the transition to the new management mechanism is the distribution of resources via the monopolist departments, primarily the

USSR Gosplan [State Planning Committee], USSR Gosnab, USSR Ministry of Trade and the Tsentrsoyuz [Central Union of Consumers' Societies]. The principal holder of resources here is the USSR Gosplan. If considered in value terms, almost 60 percent of the centrally distributable product is reserved to it (to the ministries and departments, approximately 30 percent, to the USSR Gosnab, more than 10 percent). And this excessive centralization of product supplies and sales is typical of all the leading national economic complexes, what is more.

The anti-trust program should contribute to the development of competition and market relations and will have the following main directions:

- 1) the complete dismantling of the administrative-command system and the components thereof which contribute to the preservation and reproduction of monopoly relations;
- 2) a change in the production structure based on the comminution and diversification of current industries;
- 3) formation of the organizational and legal mechanism of the ascertainment and surmounting of manifestations of monopolism in the economy.

The success of the measures pertaining to a limitation of monopolism will depend to a large extent on the formation of a market infrastructure closely connected with such processes as a recovery of the monetary and financial system, the shaping of a new pricing system and price liberalization and the creation of a financial market. At the same time it will be necessary right from the first steps of the program of reforms to begin the realization of a set of anti-trust measures.

The unity of the republic approaches to ensure the steady operation of market mechanisms will be particularly important in this sphere. It will be necessary for this to create in September 1990 union and republic anti-trust committees, which will pursue a concerted policy of struggle against monopolism. The union committee will be organized per the federal principle with the representation of all the republics and will regulate the all-union market.

The concordance of the republics should be manifested in the adoption of analogous legislative instruments.

The "Fundamentals of Anti-Trust Legislation in the USSR" Act and the corresponding republic acts will be taken as the basis up to 1 January 1991. They should determine the fundamental rules of the activity of participants in economic turnover and of the organs of state power and administration; establish the criteria of unfair competition and monopoly activity: the limitation or reduction of the production of products in short supply, refusal to conclude a contract despite available production potential and imposition of terms thereof not germane to the subject of the contract and also a compulsory product mix; and determine instances of the

illegitimacy of agreements on a dividing-up of the market and limitation of the access thereto of other participants.

It is necessary prior to mid-1991 to eliminate an absolute monopoly which has taken shape in trade—the system of stock distribution. It needs to be replaced by horizontal market structures with a sufficient number of producers and consumers for mutual choice and competition.

It is necessary in place of monopolies of the USSR Ministry of Trade and Tsentrsoyuz type (where the share fund is only 2.7 percent of internal resources) to encourage the emergence in the republics and locally of diverse organizational trade structures conforming to the demands of the market: retail associations, commercial associations, joint-stock companies, trade and brokerage cooperatives and stores. The specialized trading organizations which operate in the national economy and which represent in the majority of cases an administrative superstructure on top of the trade network should be eliminated.

The republic and local authorities should be encouraged to create a commercially active wholesale trading component, commercial banks, warehouse, packaging and transport facilities, information systems and other components of a market infrastructure.

Implementation of the proposed measures will make it possible to create the necessary prerequisites for the substitution of horizontal for vertical economic relations, which is a decisive condition of the formation of a market and the actual decentralization of administration and, ultimately, its demonopolization.

With the commencement of the process of the formation of joint-stock companies from the large-scale state-run enterprises and associations of the USSR SPF the republic state property management committees will have in each individual case in conjunction with the anti-trust authorities to consider and decide the question of the expediency of the existence of production associations and divide them where necessary, separating, as far as possible, the nonspecialized subsidiary works from the body of the enterprises into independent works.

How justified purely administrative methods of the liquidation, division and breakup of enterprises are should be determined by calculations of economic expediency. Strong production engineering ties could, for example, impede compulsory division, requiring expenditure for this. This applies primarily to capital-intensive, single-unit and small-series unique-product works and the mass production of items of a limited range.

Special conditions of a change in the price of the products (upon coordination with the state authorities), the compulsory sale of a part of output on the foreign market and the obligatory sale of products via intermediaries are determined in such cases and also for particularly important individual monopoly manufacturers.

A list of functions whose centralization in any type of enterprise associations is prohibited should be determined before the end of 1990. This should be reflected in anti-trust legislation also. The statutes and regulations governing the activity of all organizational associations of enterprises (associations, MGO, concerns, consortia) are on this basis to be revised as of 1 January 1991 (as of 1 February in the republics). In the event of nonconformity to the requirements of the law, these associations must be compulsorily broken up.

The surmounting of "natural" monopolism characteristic of sectors satisfying all-state needs (transport, communications, main pipelines) will encounter big difficulties. It will be necessary to formulate effective measures for weakening such monopolies as as the Ministry of Railways, the Ministry of Power and Electrification, the Ministry of Maritime Fleet, the Ministry of Communications and the "Gazprom".

Taking foreign experience as the basis, it will be necessary to develop in them step by step, with regard for the specifics of the corresponding sectors, parallel industries and to create competing firms, albeit small initially. Strict state control, particularly of prices and the quality of goods and services, will be established for the "natural" monopolies. Tighter regulation is needed here more than in other spheres of the economy: the compulsory state order and the controlled establishment of prices and rates.

A most efficient way of overcoming monopolism in the main component is connected with the achievement of the optimum combination of large, medium-sized and small enterprises. Judging by the experience of the development of the cooperatives, rapid changes may be anticipated here. In 2 years the number of cooperatives has risen to 200,000, and annual product sales, to R40 billion.

Decisions on the encouragement of small businesses have already been adopted at the union level. It is now the republics' turn. It is necessary to establish even conditions of management for these enterprises and effect a simplified procedure of their creation. It is necessary to establish for all newly formed small businesses certain taxation allowances for the first 2 years of their activity. Both the compulsory and resourceful comminution of monopoly works and the separation, given their production independence, of self-sufficient production-economic units and also cooperative and tenant collectives from large-scale enterprises and the creation of daughter enterprises on the initiative of associations and plants are anticipated for the development of small business.

Government support is essential for small business. Specifically, plots of land, production facilities and premises which are standing empty, which have been closed down temporarily and which are incomplete and also unutilized equipment and fixed and working capital of

bankrupt enterprises may on a competitive basis be made available for the construction of such businesses.

2. Financial and Credit Policy

The linchpin of an acceleration of the economic reforms is a stable ruble. A stabilization of economic relations, bringing elementary order to bear in the economic system, saturation of the market and progress toward a new role of the state in the economy, efficient production and integration in the world economy are impossible without stable money. It may confidently be maintained that all other special measures without a solution of the money question will only cause harm.

The Banking System

A uniform monetary system and preservation of the centralism of monetary and credit policy are a condition of the success of the reforms. This requires the conversion of the USSR Gosbank system in October 1990 into a Union Reserve System as an agreed union of the republics' central banks. The Union Reserve System consists of a Managerial Council headed by a chairman appointed by the president of the USSR and the central banks which are members of the system proper.

The Council adopts by necessary majority all the most important decisions pertaining to questions of the monetary and credit policy of the USSR, and they are implemented in practice by the republics' central banks. The Council does not have its own budget but prepares a consolidated balance of the Union Reserve System, and specific functions, including the establishment and support for the ruble's exchange rate and management of the union's currency reserves, are delegated to the Republic Central Bank Council.

The Union Reserve System is a single body corporate, that is, a monopoly of cash emission and the unity of the common principles of bank supervision are preserved, although technically emission is practiced by the banks of the republics, and it is they which exercise direct supervision of the commercial banks on their territory.

The republics enact their own banking laws, which do not conflict with the Union Reserve System agreement. A condition of participation therein is the renunciation of unilateral action pertaining to the regulation or limitation of monetary circulation and the extension of credit.

In the republics the central banks are withdrawn from the jurisdiction of the government and report annually to the supreme soviets, which do not interfere in their day-to-day activity. For the period of realization of the program of transition to the market (up to 1992) the Union Reserve System and the republic central banks will cooperate closely with the authorities coordinating implementation of the reform.

A key feature of credit reform is the commercialization of the state-owned specialized banks. They will be converted into independent joint-stock companies with share distribution which is as extensive as possible. The commercialization will be effected without the breakup of the evolved structures, although a partial comminution of the specialized banks with the creation of local and regional commercial and cooperative banks on the basis thereof is possible.

The USSR Vneshekonombank [Bank for Foreign Economic Relations] and the Savings Bank will be converted per the said plan, but in this case the demonopolization should consist primarily of the elimination of the artificial monopoly of currency transactions and the attraction of the savings of individuals. Savings banks of all levels will be withdrawn from the jurisdiction of the gosbanks, the increase in deposits will cease to be automatically immobilized, and they will develop as normal commercial banks.

Commercialization presupposes the banks operating within the confines of their own and trust fund monies, the independent choice of facilities to which to extend credit and establishment of the price and term of the credit, a single system of taxation and regulation for all banks and the client's freedom of choice of bank. In October-November 1990 the savings banks will be transferred to commercial principles with the distribution of the all-union loan fund.

The system of all-purpose commercial banks will be supplemented by specialized institutions—credit cooperatives and land banks, investment and retirement funds and brokerage and leasing firms. For this the republic central banks will on the basis of recommendations of the Union Reserve System Managerial Council issue before the end of 1990 prescriptive documents legalizing and stimulating such activity.

The State Insurance Office system will be reformed over a period of several months. The State Insurance Office authorities will be converted into commercial establishments on a joint-stock basis, and the creation of new insurance companies, with foreign participation included, is authorized. An official insurance supervision system will be organized. Insured resources will cease to be entered in the budget.

Government development banks specializing in large-scale investment projects will be created in the republics for financing and extending credit from budget resources in 1991.

State regulation of the banks consists of supervision of their activity from the viewpoint of the protection of clients' interests. The republic central banks are entrusted with the job of registering the opening of banks, supervising their transactions, accounting and accountability and creating mechanisms for the protection of the interests of investors in commercial banks thanks to contributions of the banks themselves.

Interbank payments will be restructured, the system of interbranch turnover will be eliminated and the transition to settlements via the offsetting of accounts will be effected in October. This will for a certain time delay settlements and "tie up" substantial amounts. The republic central banks will provide for interbank clearing to speed up payments at their own level and negotiate a common system within the Union Reserve System framework.

Monetary and Credit Policy

Monetary and credit policy acquires fundamentally new features under the conditions of transition to the market. For the purpose of getting on top of the situation in the sphere of monetary circulation and the extension of credit a transition from credit and cash planning to regulation of the amount of the aggregate money supply will be effected as of November. The key task of the first months will be a sharp credit squeeze and limitation of growth of the money supply.

Indicators of the aggregate money supply are being developed, and the corresponding units are being calculated. The gathering of the appropriate information and the rendering of accounts is being organized. The task set for the period 1990-1991 is zero growth of the aggregate money supply indicator. This may occur mainly thanks to a reduction in the amount of credit extended and, consequently, enterprise deposits. Deposits of individuals will decline in the event of the extent of the consolidation program being greater than the increase in individuals' income.

The arsenal of instruments of regulation includes:

- reserve requirements—the rate of the depositing of some of banks' deposits in non-interest-bearing accounts in the central bank;
- the rate of depositing in the central bank of part of the increase in the extension of credit and direct quantitative restrictions;
- interest-rate policy;
- refinancing of the banks in the central bank.

At the center of the system of monetary and credit regulation at the first stage will be immobilization of some of the banks' resources and their deposition in the central bank. Changing the reserve requirement rates, the Reserve System will be able to increase or decrease banks' liquidity and influence the commercial banks' deposit emission and, consequently, the amount of money in circulation and inflation processes.

Considering the reduction in budget expenditure and the loan fund upon its distribution in connection with the need to eliminate part of the national debt and the rise in interest rates, reserve requirements at a level of 5-10 percent of bank deposits will be sufficient initially for the pursuit of a strict monetary and credit policy.

Inasmuch as the reserve requirements will begin to operate to the full extent only in December, in October the main burden of restrictive policy will be borne by direct curbs on credit—an administrative reduction in the total amount of the extension of credit by 5-10 percent or the compulsory payment of the amounts of the increase in the extension of credit into special accounts in the central bank.

Interest-rate policy will be of no less significance. A new interest-rate structure (long-term rates higher than short-term rates, loan rates higher than deposit rates) with a rise in its average level will be introduced administratively as of October for the first 3-6 months, which is intended to limit the demand for credit and reduce noncash emission. A liberalization of interest rates (loan rates primarily) will begin in 3-6 months.

An increase in the rate as of 1 October to an annual 4 percent, and from 1 January, to 5-7 percent, depending on the length of time, will be announced for individuals' fixed-term accounts. Subsequently, in the event of high inflation, it is contemplated indexing the deposits. The entire increase in Savings Bank deposits will as of 1 October be invested on commercial terms, and this, in the main, will compensate for the increase in rates. The level of interest in all banks on deposits up to R10,000 will continue to be regulated administratively.

A system of refinancing will take effect—money confiscated from the banks by various methods will be lent to them at a rate of interest determined on the basis of the tasks of monetary and credit policy; the banks will, accordingly, be forced to tie their rate to the central bank rate (it must be uniform for all members of the Reserve System).

Government credit policy may be realized via credit guarantees of the Reserve System, the subsidizing of individual types of credit (for exports, the priority sectors, small business), the creation of special state credit institutions and the stimulation of interbank competition.

It is essential to determine the status of the ruble as the sole legitimate means of payment on the territory of the USSR. The issuance of other notes and surrogates and the use of foreign currency as a means of payment are prohibited for the purpose of stabilization of the purchasing power of the ruble.

Specialists estimate that there are in the hands of individuals up to R2 billion in foreign currency. This is the equivalent of R40 billion (at the black market rate) compared with the R110 billion in circulating cash. The introduction of foreign currency in domestic circulation is devaluing the ruble faster than emission.

To rectify the situation the USSR Council of Ministers ordinance on retail trade for foreign currency will be annulled, all foreign currency stores, other than extraterritorial stores (airports), will be converted into commercial outlets and the free buying and selling of foreign

currency, the opening of foreign currency accounts and certain other elements of the domestic convertibility of the ruble will be introduced.

A central component of the restructuring of the monetary system is a **change in the mechanism of cash emission**. The centralized issuance of authorization for cash emission will be eliminated. Ineffective cash planning and the restrictions on the issuance of ready cash will be canceled.

The current system leads to delays in remuneration, given money in the accounts, the appearance of an exchange rate between ready cash and deposit money (up to 1:3), corruption and abuses and the use as money of bonds and savings certificates.

Cash should be issued in the form of the sale of banknotes by member banks of the Reserve System to the commercial banks. Given such a system, the central bank would effect emission by way of the replacement of deposit money with cash, that is, the aggregate supply of money in the hands of the banks, enterprises and individuals would not change.

The separation of cash and noncash turnover will be eliminated in a linkage with the elimination of the strict regulation of enterprise finances and a transition to regulation of aggregate monetary circulation will be effected as of 1991. For this:

- restrictions on noncash payments and settlements will gradually be eased;
- cash payments of over R1,000 will be limited;
- strict terms of reference will be set pertaining to the development of noncash payments (including an increase in the charge for encashment making ready-cash transactions unprofitable);
- a campaign to persuade the population to keep their money in banks will be conducted.

The State Budget

A key feature of the transition to the market is strict financial policy, which implies a sharp reduction in budget expenditure as a principal source of the state of imbalance.

Reduction in spending. The budgets of the union and republic levels have potential for reduction:

- capital investments in production (by 20-30 percent), including facilities begun in the current year;
- secondary expenditure and expenditure which has lost its special significance in connection with a change in the situation; appropriations not assimilated on schedule;
- stocktaking and cancellation of all investment programs adopted previously, the effect of which will not be seen for 3-5 years;

—a 1-year freeze on the adoption of all new budget-financed programs costing over R100 million and all new write-offs and subsidies;

—expenditure of the Ministry of Defense (by 10 percent) and the KGB (by 20 percent);

—aid to other countries—by 70-80 percent;

—an even reduction of 5-10 percent in union and republic expenditure on the maintenance of the organs of state power and administration, purchases of equipment for budget-financed organizations (other than medicine), the social sciences and other unprotected items;

—subsidies to loss-making enterprises (by no less than 30-50 percent);

—general inspection of budget-financed organizations with inefficient expenditure in view (closure of the organizations, cutback in appropriations).

The task for the period up to 1 January 1991 is a reduction in the state budget deficit of up to R5 billion in the fourth quarter, given its normal financing. It is planned totally eliminating the union budget deficit by 1 March.

An important part in the balancing of the budget may be played by an **increase in revenue**: a growth of receipts from turnover tax; certain new taxes; and so forth.

The **budget arrangement** of the USSR, primarily the separation of budgets, will be reformed. All the union republics will create their own budget systems and will be responsible for their budgets being in balance. The union budget will balance, as a rule.

The bulk of social and cultural and other expenditure will be transferred from the union to the republics, to the localities particularly. The local authorities will lose the possibility of appealing for appropriations to the union and republic budgets.

The republics will negotiate general principles of budget policy: the permissible level of the deficit and its financing only within the limits of the actual distribution of securities.

The principle according to which the initiative for expenditure belongs only to the Council of Ministers, and the Supreme Soviet accepts or rejects its proposals (rejection of the budget is the equivalent of a vote of no confidence), will be enshrined in all republics. There will be an increase in the length of time in which the Supreme Soviet analyzes a budget which has been presented. A procedure whereby the maximum permissible size of the deficit will be established as a **preliminary** or it will in fact be prohibited.

Protected and unprotected items are distinguished in the budget. Protected budget expenditure is indexed. All

projects financed from the budget are approved by the Supreme Soviet individually, given a cost of more than R100-R500 million.

Republic supervisory bodies under the auspices of the supreme soviets will be formed to increase the efficiency of the use of budget resources. These bodies will have the right to terminate the budget financing of specific facilities and organizations in the event of abuses, negligence and a disruption of deadlines being discovered.

It is proposed making the annual budget the main program document of the state's economic policy. Key economic measures of the year, monetary and credit policy included, will be adopted simultaneously with the budget.

Tax System

Each republic has the right to have its own tax system. However, under the conditions of a single economic space considerable differences in the tax systems would inevitably give rise to undesirable problems of the manipulation by tax practices and dual taxation type and others. The republics' concordance of the basic principles of taxation systems is therefore essential.

At the present time the union republics believe that the union budget should be formed by way of the republics' transfer of resources for the realization of authority which they delegate. Each republic's contribution to the budget will be determined on the basis of the size of its GNP (national income) or per capita GNP. The linkage of the amount of the republic's contribution with the size of per capita GNP is aimed at equalizing the starting conditions of the transition to market relations.

The subjects of management and corporate bodies and individuals on the territory of the republic will pay tax here only to the republic and local budgets. Distribution of tax receipts among the republics and local budgets is regulated by legislative instruments of the union republics.

The outward attractiveness of the so-called "single-channel" method of formation of the budget by way of periodic contributions, given a detailed analysis of the practical aspect of the matter, is not confirmed. The need to effect current expenditure from the union budget, the high demands on the guaranteed and unconditional nature of its timely replenishment, the complexities and contradictions arising upon determination of the amounts of the contributions from the republics—all these obligations prevent this method being proposed.

A federal all-union tax and its rate may thus be established upon the consent of all the republics. This will allow the union to plan its expenditure on the basis of anticipated revenue and bear full responsibility for its financial policy.

Given such a system, the fixed contributions of the republics may be made for the realization of individual programs or the formation of specific funds.

As the basis for republic tax legislation it is proposed in 1991 employing all-union tax legislation providing for three basic taxes: on enterprise profits, on citizens' income and turnover tax. At the same time it is essential to adopt to current laws the following amendments:

a) turnover tax will as of 1991 be divided into turnover tax and excise payments on a limited range of commodities at the time of their ultimate sale (alcohol, tobacco, luxury items, automobiles); turnover tax proper will be spread over a wide range of products at low rates; the rate of turnover tax will be established as a percentage of the extent of sales in respect to consolidated groups of products;

b) profits tax will be standardized, and the special status for banks, consumer societies and public organization enterprises and also the progressive taxation of profits depending on profitability will be abolished; a system of tax rates depending on the extent of profits will be introduced; reducing when computing the tax on the profits of joint-stock companies' taxable profits by the amount of payments into a reserve fund until it has reached a particular level is authorized; the number of tax abatements, the majority of which should be reconfirmed annually, will be reduced;

c) the rate of income tax on individuals will be adjusted downward, the nontaxable minimum will be raised and progression will be made more even;

d) there will be a change, in accordance with the terms of the Formation of the Economic Union Treaty, in the principles of the payment of tax receipts into the union budget;

A special tax on the use of nonrenewable natural resources will be introduced.

In addition, the powers of tax inspection will be expanded (they will become genuinely independent), and measures will be adopted for the fuller coverage of all taxable income. The transition to declarations of income will be speeded up. Strict liability under criminal law will be introduced for tax evasion.

The National Debt

The USSR's internal national debt had on 1 January 1990 reached R400 billion. Voluntarily floated loans account for merely R20 billion of these. The rest of the resources were confiscated from the banking system (R350 billion), approximately half of these indefinitely and free of charge, what is more, and R22 billion from the USSR State Insurance Office. The attempt to undertake in 1990 a large-scale issue of securities was a failure,

and as a result of the writing off of debts and a new confiscation of bank resources the sum total of the internal debt has grown 30 percent.

It is proposed by the end of 1990 structuring all resources borrowed before 1 September 1990 from the banking system into long-term loans with specific conditions in a sum total of monies transferred by the USSR Savings Bank to the USSR Gosbank. Newly issued bonds will be distributed among the savings banks and state insurance offices of the republics as their assets proportionate to the resources (in the form of accounting transactions) transferred by them. Agriculture's debt (R 70 billion) will be written off by way of a reduction in the all-union loan fund upon its distribution among the banks. The servicing and discharge of the accumulated debt (payments by the savings banks) will be assumed by the republic budgets. The sum total of the union debt will be fixed. A new union debt is possible only on the basis of the specific agreement of the republics. If such a decision is adopted, the USSR Ministry of Finance will be responsible for the issuance of promissory notes.

The realization of loans for individuals and enterprises scheduled for 1990 should continue with the consent of the union republics with the sale of bonds at market prices. To stabilize the situation and withdraw surplus money from circulation it will be necessary to accede to the issuance of union bonds over and above budget requirements even.

Each republic enacts a law on the republic national debt, which determines the procedure and ceilings of an increase therein, financing techniques and the authority and apportionment of responsibility at soviet level. The following general principles are proposed:

—legislative prohibition of the administrative use of bank resources for financing the budget and also compulsory loans. Short-term (up to 12 months) credit of the Reserve System for the union or republic budget is provided for in exceptional situations.

The rules of the issuance and circulation of government securities and management of the national debt are determined by the republic Ministry of Finance. Transactions pertaining to the investment, discharge and payment of interest and refinancing are undertaken by the republic Gosbank.

A decision to increase a republic's debt is made by its government within the limits established by the Supreme Soviet. An absolute and relative (to GNP) debt ceiling is determined.

A republic fund for payment of the national debt as part of the budget is created and sources of its replenishment are determined, and, specifically, receipts from privatization may be used.

The deficit of a republic, autonomous entity, oblast, rayon and city is financed by their borrowing. Authorities of different levels are not responsible for one

another's liabilities. The local soviets themselves pursue their own financial policy within the framework of current laws.

Prior to the creation of a developed securities market, the terms of local loans will be agreed with the republic Ministry of Finance and the Gosbank, and large loans (R100 million and more) with the USSR Ministry of Finance and Reserve System Managerial Council for the removal of needless competition (a loans line).

Determination of the list of investors at whom new securities are targeted and diversification of the debt in terms of time and form (from treasury bills through medium- and long-term bonds); the optimum term of loans today is 5 years.

The Financial Market

A condition of the efficiency of the economic system and the banking system is the **financial market** as a mechanism of the "horizontal" redistribution of monetary resources and the intra- and intersectoral transfer of sums of capital to counterbalance the "vertical" budget method. A financial market is necessary for normalization of the interest-rate structure, an evaluation of the financial position of borrowers and the consolidation of the disposable resources of individuals and enterprises.

The formation of financial markets at republic level will begin as of October 1990. This presupposes:

- a) the adoption of the corresponding legal instruments;
- b) the formation of a system of market regulation.

The basis of the financial market will be the credit market incorporating relations between the banks, enterprises and individuals and also interbank and commercial credit (including promissory note circulation). Supervision of the credit market will be exercised by the Gosbank of each republic within the framework of the overall policy of the USSR Reserve System.

A securities market, including standard shares, bonds and share certificates, will be formed in parallel. Stock markets or divisions at commodity markets will be created, and an interbank market will develop. The price of shares and bonds on the financial market will reflect supply and demand. The formation of brokerage houses for trading in securities and auditing firms will be stimulated. Supervision of the securities market will be exercised by the republic ministries of finance or special agencies regulating securities transactions. The coordinator of the development of the all-union market will be the Union Securities Agency, to which the republic agencies will delegate certain functions.

An interbank credit and monetary market may take shape comparatively rapidly. The securities market will develop more slowly, depending on the success of privatization. It will be necessary here **prior to the start of the reform to reach agreement among the republics on the**

freedom of the transfer of monetary resources and trade in securities and also on coordination of the activity of the regulatory authorities.

3. Pricing Policy

Price policy in the period of formation of the market economy will proceed from the following principles:

1. The state will renounce an administrative increase in the retail price of consumer goods. The state's establishment of the price of commodities is justified merely on condition of the accessibility of these commodities to all. If the state cannot ensure the necessary quantity of commodities at the price which it has established, it is obliged to entrust the determination of prices to the seller himself and the purchaser. The subsidy channeled currently by the state into the maintenance of low prices for food products in fact goes to the producers and processors, and the bulk of the population is forced to purchase produce either on the market or in cooperative trade or only low-grade produce finding its way onto the counters of state trade.

At the present time only 58 percent of the meat and meat products consumed, 80 percent of the milk, 25 percent of potatoes, 45 percent of vegetables and melon crops and 56 percent of eggs passes through state trade. Of the commodity resources of meat, for example, approximately 40 percent (that is, 23 percent of the amount of consumption) is low-grade meat, that is, that which, in the main, makes its way onto the counters. The rest of the meat and other high-grade products are sold via distributors, the commission system and other sources, which are not accessible to all, and find themselves under the control of the shadow economy.

An administrative increase in prices cannot ensure market balance and create the prerequisites for the elimination of the distributive system.

2. The prices of consumer goods and services will gradually be freed from administrative control.

At the same time the prices of approximately 100-150 specific goods and services forming the basis of families' subsistence minimum will for the purpose of social protection of the population be frozen through the end of 1991. The republic and local authorities will place orders for the additional production of these commodities and, if necessary, introduce their normed distribution.

Subsequently, retail price control will be eased successively by commodity group with regard for the specific situation and the situation on the market. By the end of 1991 the proportion of free prices should constitute up to 70-80 percent of purchases of goods and services. In 1992 it is contemplated controlling prices only in respect to a small group of basic consumer necessities (certain grades of bread and meat, milk, vegetable oil, sugar, the main types of medication, school textbooks, fares, rates for individual types of municipal services).

The consistent freeing of prices will make it possible to balance the consumer market and eliminate shortages. The more extensive the range of commodities sold at free prices and the greater the commodity supply, the sooner prices will stabilize and begin to decline. Price differentiation in respect to the quality of the merchandise will emerge.

In order to avoid an increase in the rate of inflation the lifting of price control must necessarily be accompanied by strict financial and credit policy: a considerable reduction in the budget deficit, the creation of a banking system capable of controlling the money supply, the establishment of a strict financial limitation for all commodity producers and protection of individuals' savings.

An accelerated pace of the denationalization and demopolization of the economy and the development of competition and enterprise and the market infrastructure are essential also.

In instances of the inordinate growth of prices removed from control earlier a temporary freeze thereof by means of the establishment of their maximum level is possible at the decision of republic and local authorities.

3. In the transitional period the state will be unable to abandon immediately the policy of maintaining low retail prices for one commodity or another as a method of social protection of the population, which presupposes the preservation in a certain amount of price subsidies. A fundamental change in the procedure of the payment of food product price subsidies is essential, however.

They should be paid only to the stores for a limited list of specific products. The sum total of subsidies will be linked directly here with the quantity of goods sold over the counter.

The mechanism of the payments of subsidies should be determined by the republics depending on the number of inhabitants in the region and their consumption level. The local soviets will distribute the value of the subsidies among trading organizations (proportionate to the volume of sales in fixed prices or in rubles per unit of physical volume). For example, given the establishment of price subsidies for sale of 1 kilo of meat and meat products of the order of R3.5-R3.7, and such is the difference between average state and market prices, the savings in meat subsidies would constitute R8-R10 billion.

4. A liberalization of wholesale and purchase prices should be tied in with the liberalization of retail prices. It will be implemented as follows.

For 1991 the prices of a large part of industrial engineering products will be determined per an arrangement between suppliers and consumers. Government regulation of wholesale and purchase prices will be preserved for:

—basic fuel and power and raw material resources and transport charges;

- products manufactured to state orders;
- the products of monopoly producers.

Fixed official prices determined on the basis of a multilateral agreement between republics in a linkup with supply volumes will be established for basic fuel and power and raw material resources and also certain general types of product which are the subject of exchange between republics.

Fuel, energy and raw material prices here will be adjusted with regard for the growth of the costs of their producers.

For the consumers the increase in the price of energy and raw material will be compensated:

- in the production sectors, by resource-saving and the right to apply free prices for their products and also, if these prices are regulated, via stabilization funds;
- in the nonproduction sectors, by budget appropriation indexation;
- for the individual, by an income-indexing system.

Contracted prices determined by state contract system authorities following coordination with the producers, the principal consumers and wholesale enterprises representing the interests of small consumers will be established for the remainder of the products manufactured in accordance with state orders.

The state contract system authorities have the power to establish prices here, in cases where a concerted decision cannot be reached included.

However, they are obliged to take account of the interests of the producers and consumers, the possible cost dynamics for both and the level of market prices of analogous products. Contracts for the fulfillment of state orders stipulate the procedure of the adjustment of prices in the event of unforeseen cost increases.

Negotiations should be organized in the fall of 1990 in respect to the conclusion of contracts for the fulfillment of state orders and the establishment of prices for product groups and individual items. Price lists, the price of fuel, raw material and energy established at the time of multilateral negotiations with the participation of the republics and enterprise calculations will be used for guidance in respect to them. A limitation of price increases for a particular period (a quarter, a year) differing in terms of type of product may be established: the limitation should be the most appreciable (no more than 25-30 percent per year compared with the listed price) for products of ultimate consumption and may be higher for sectors in whose costs the proportion of fuel, raw material and energy is high.

All participants in the negotiations, which may demand an increase in the prices of their products, should display

social responsibility and an understanding of how devastating the consequences of their inordinate demands could be.

The establishment of contracted prices of products supplied per state orders is made difficult by the fact that as of the time of the negotiations the price of many types of the raw material, intermediate products and components necessary for their manufacture will not be known.

In this connection it is expedient:

1. To organize prompt information on the contracted prices established at negotiations which have already been conducted;
2. To conduct negotiations and establish contracted prices successively, beginning with raw material, intermediate products, semi-manufactured goods and components.
3. To conduct, where possible, joint negotiations on questions of the manufacture of products and the basic types of materials for their manufacture.
4. To limit the list of products incorporated in the state order in respect to which contracted prices via the state contract system will be established;
5. To determine in master contracts, where possible, not the prices of specific items but indices of a change in the listed prices of product groups.

The price ratios contained in the price lists are used to differentiate prices with regard for quality, grade and completeness.

Bulletins containing lists of the approved prices are published on the results of the negotiations within a month following.

The organization of negotiations, which should be completed as quickly as possible, will require great efforts. Where authorities of the state contract system have not been formed, it should be taken on by the current organizations of the Gosplan, Ministry of Trade and Agrosnab with the participation of the pricing authorities.

The loose ends remaining as a result of the negotiations will be removed by the ad hoc adjustment of contracted prices in the procedure envisaged in the master contracts and also with the help of the stabilization funds.

Consumer goods for which constant fixed prices are preserved may be incorporated by the republic and local authorities in state orders and acquired by the trading organizations at the established contracted prices. The difference which arises here between the wholesale and retail prices is compensated with regard for the trade markup by subsidies from the local budgets.

A subsidy fund of the size needed for this is formed:

- from budget receipts from commodities sold at free prices;

- from an increase in turnover tax receipts, which will grow in connection with the increase in wholesale prices;
- from the sum totals of subsidies transferred from the republic budgets in planned amounts.

In instances where resources for the payment of subsidies are, for all that, still insufficient, the local authorities should adopt a decision on a reduction in the volume of sales at low prices and also on the introduction of normed distribution if shortages emerge in respect to these commodities.

Market prices should be formed to an increasing extent via commodity markets and fairs. It is essential in this connection to shape the development of such components of the market infrastructure, stimulating the conclusion of deals at the markets and fairs by tax and other concessions.

State regulation in respect to products which are not a part of state orders is exercised for a limited list of commodities established by republic or local authorities and also the products of monopolist enterprises.

The basic method of government price regulation consists of the manufacturers of the products and services subject to regulation being obliged in instances where they wish to raise prices to submit the necessary bases to the competent state or local authorities. Upon expiration of the established period of time these authorities must give notice of their decision based on the recommendations of qualified experts: agreement, disagreement or partial agreement. Failure to comply with the decision is punished by meaningful sanctions.

Subsequently prices will be regulated mainly by means of financial and monetary and credit policy and also "commodity intervention" methods. The main aim is limiting aggregate demand by curbing the aggregate money supply.

Unless price reform is conducted in different republics and regions synchronously, the emergence of negative phenomena like speculation on the difference in prices and mass purchases of commodities in regions with lower prices, with the devastation of their markets, is possible. Such phenomena would force such regions either to impose restrictive administrative measures or speed up price liberalization locally. The price equalization natural in a market economy would ultimately occur here. But in order to avoid such phenomena it would be expedient to coordinate the actions in this sphere of the competent authorities of neighboring republics and regions, preventing excessive discrepancies in their prices.

A condition of the organized implementation of pricing reform and the timely ad hoc adjustment of controlled prices and the indexing of individuals' income is the creation as quickly as possible of an effective system of the observation of price dynamics.

4. Living Standard, Social Safeguards, Labor Remuneration

Traditionally, programs of a transition to a market economy presuppose a greater or lesser, lengthy or short-term fall in individuals' living standard. An analysis has shown that another concept of the program is possible also. Conditions for the stabilization of and, subsequently, a rise in the living standard will be created in the transition period even.

It is a question not simply of a transition to market mechanisms of economic relations. A more meaningful goal is being set—shaping a socially oriented economic system and replacing declarations of social priorities with mechanisms of their realization which are precise and clear to every citizen of the country.

A particular feature of the proposed reform program is the fact that, given certain circumstances, the shortcomings of our economic system and its most deep-seated flaws could be turned to the benefit of perestroika. One such flaw is the global nationalization of property.

The very high level of concentration of state ownership creates conditions for organized and comprehensive privatization. This will from literally the first steps of the reform afford an opportunity for the removal of the workman's alienation from the means of production, the incorporation of the masses at large in the process of transformations in the economy and the laying of the foundations of new motivational mechanisms, whose essence consists of the managing subject being accorded freedom of economic activity and enterprise and, consequently, freedom to shape his own welfare and prosperity.

Together with this, the mere fact of privatization under our conditions will be a specific shock absorber of undesirable phenomena in the people's living standard.

In Poland or Hungary, where state ownership never reached such total proportions as in our country and where a private sector was in existence in one form or another even prior to the start of the reforms, the use of privatization as a shock-absorbing measure upon transition to the market was limited. Proceeding from our conditions, we have every reason to expect that, thanks to the return to the people in various forms of a substantial amount of property and resources, it will be possible to avoid many of the negative processes which have been encountered in the implementation of reforms in the East European countries.

The first thing that needs to be done is a full and comprehensive audit of all national resources and methods of their utilization. There is tremendous potential, which would noticeably alleviate people's lives today or in the immediate future even, potential not considered in other draft analogous programs. We mean primarily the sectors of defense industry and military property which is temporarily not in use or which is

actually being used even, but which, owing to the cardinal change in the international situation, is suitable for its immediate incorporation in civilian turnover (a special analysis of these reserves at the time the program was being prepared was made extremely difficult by the experts' lack of exhaustive data).

Tremendous resources are lying immobile or are being used irrationally at enterprises, in state reserves and at the disposal of public organizations. They also could be put to the use of the people today practically.

Finally, the rational and efficient use of the resources which may be made available to us by Western countries will help not only accelerate the development of the country's production and S&T potential but also improve the state of the consumer market. The very possibility of realizing the population's unsatisfied demand for essential goods and services will essentially be the equivalent of an increase in real income.

What is the purpose of the social orientation of the proposed system? Primarily according the managing subject, whoever he be: the outfit of a state-owned enterprise, a farmer, a private businessman, freedom of economic activity and enterprise.

The other side of the freedom that has been acquired is the personal responsibility of each for his family, the outfit in which he works and for the society in which he lives. Whereas the principal social function of the totalitarian state as principal proprietor was the redistribution of part of the national wealth it allotted the people, the task of the new managing subject is the creation of this wealth, and not only for himself but for society also, what is more. This means that an increase in the labor activity of the workman will be an important guarantee of a growth of his living standard, and the efficiency of the economy as a whole will create the prerequisites for the maximum possible level of general well-being at a particular stage.

A characteristic feature of the new system is assurance for each citizen of the country of equal opportunity. This will be realized via a system of government social **safeguards**, which will incorporate forms and levels of support for various groups of the population legislatively enshrined by the state. These will be long-term mechanisms guaranteed by legislative instruments in the sphere of wage regulation, the pension and social security system, distribution of free services from social consumption funds and financial policy in respect to individuals.

Thus a socially oriented market in this program means:

- freedom of economic activity as the basis of an increase in the living standard plus responsibility plus a developed system of social safeguards;
- social partnership between the citizen and the state, consumer and producer and employee and employer.

In the transition period the program provides for a set of measures which need to be implemented in the republics for the purpose of the creation of an efficient and ramified system of social safeguards reaching each citizen.

Pertaining to the social safeguards now are:

- a minimum wage;
- a pension;
- a scholarship;
- benefits, for temporary disability included;
- the right to labor;
- the right to free education and medical services;
- allowances connected with work conditions;
- the right to accommodation;
- the right to recreation.

This program presupposes not only the continuation of these and other social safeguards which operate at the present time but also their suffusion with new content, a strengthening of their financial base and, what is particularly important, the addition thereto of a number of fundamentally new ones. By the end of the transition period, that is, in 500 days, the entire system of social safeguards will be based on a qualitatively new component—a legislatively approved subsistence minimum based on a minimum consumer budget.

In addition, the following types of safeguards will be introduced:

- a mechanism for maintaining the real content of the nominal income and indexation;
- the right to temporary disability (unemployment) benefit;
- the right to obtain differentiated minimum pay depending on qualifications, regardless of forms of ownership;
- the right of the poor to social assistance;
- the right to property and income therefrom.

The establishment of a system of social safeguards as the basis of social policy presupposes for each republic the formation of a strong legislative basis. The specific conditions and forms of the social safeguards will be determined by the republics based on the living standard which has taken shape, financial possibilities and the rate of realization of the program.

The development of the system of social safeguards presupposes the suffusion with new content and development of the social consumption funds. They will be the basic guarantor of the social protection of the members of society who are unfit for work and a most

important form of realization of state social policy. An increase in the efficiency of the use of the social consumption funds presupposes the decentralization of the control of this form of distribution and an enhancement of the role of the territorial authorities and enterprises in their formation and use.

Considering the social focus of the reform, the point of departure should be the elaboration of a **minimum consumer budget**. It will be a most important social safeguard since the minimum income levels will be determined on the basis thereof. Proceeding from the current methods, the standard per capita minimum material sufficiency budget for the USSR as a whole in 1988 was put at R105 per month. Approximately half of this sum is accounted for by expenditure on food, almost 20 percent, on nonfood commodities, 14 percent, on services. Approximately R3 per month are allocated for satisfaction of spiritual requirements.

This structure of the minimum budget is oriented primarily toward physiological requirements. It does not create conditions for development of the individual (see the Supplement).

Under the new conditions the calculation of the minimum consumer budget should be based not on beggarly requirements and the minimum levels of their satisfaction but on the opportunity afforded each member of society by the economic system to live decently even at the minimum income level.

The **minimum consumer budget** under the new conditions should guarantee not only satisfaction of the priority need for food and clothing with regard for the liberalization of retail prices but also the possibility of possessing housing, enjoying the services of medicine and education and supporting the person who is unfit for work. This is a qualitatively new form of determination of the cost of manpower ensuring for the workman not simply the minimum means of subsistence but the possibility of growth and improvement and freedom of consumer choice.

Use of the minimum consumer budget as the basis of minimum income levels presupposes that a change therein will guarantee also the corresponding changes in the system of distribution. The resources necessary for supporting the population at minimum budget level should be seen as the minimum line of resources necessary for the realization of social policy both in cost and in physical form, which in practice means a departure from the residual principle and the actual socialization of the economy.

Introducing in the system of distributive relations as the basis precisely this minimum consumer budget would not seem possible at the present time. It is not only a question of the lack of resources. The objective conditions: a shortage-free consumer market represented by both expensive and inexpensive commodities, intra-group differentiation of retail prices, a developed system of services for which payment is required and so forth,

have not been created. These conditions should have been secured by the end of the transition period, and a comprehensive reform of distributive relations is possible on this basis.

A central issue of changes in distributive relations will be the **reform of remuneration**. Pay is the principal component of the entire system of social protection, and its most important task is to secure the conditions of the expanded reproduction of the workmen's labor, professional and social attributes.

The present level of Soviet people's remuneration cannot be deemed satisfactory. Table 1 shows the **cost of certain types of commodities in hours and minutes of work time** which the average worker of automotive industry in the USSR and foreign countries has to spend. A calculation in two versions—current prices and the retail prices proposed by the USSR Government—has been made for the USSR.

The following conclusions are obvious:

1. Even taking compensation into account, there is an increase in the cost of practically all commodities upon transition to the new retail prices.
2. Compared with the developed Western countries the price of food and nonfood basic necessities in the USSR cannot be called low. If the price reform planned by the USSR Government is implemented, the gap in the living standard will increase even more.

The new system of remuneration should as a matter of principle be constructed such as to ensure that with its help the question of the exploitation of the labor of millions of working people in the country be removed from the agenda for good. World experience has already shown in practice that the higher the degree of development of market relations, the lower the level of exploitation of labor. The incorporation of the free workman in a system of professional movements skillfully defending his interests, social and labor safeguards created by the state and realization of the citizens' right to property and income therefrom preclude the uncompensated confiscation of that produced by labor.

The enumerated conditions dictate the main directions of the reform of remuneration, which should be conducted in the republics before the end of 1991. Having made the minimum consumer budget the basis, it is essential to fundamentally restructure the current wage-rate system. It should contain wage rates and salary schedules of the minimum amount differentiated mainly according to qualifications. Sectoral differentiation in the wage-rate system will be eliminated. This will increase the incentives to an upgrading of qualifications and will also create for the workmen conditions of confidence in social protection. In addition, this will contribute to the more rational utilization of labor resources.

№ п/п (7)		(1) СССР								(2) США		(3) ФРГ		(4) Италия		(5) КНР		(6) Малайзия		
		(8) ед. изм.	(9) цена (сред.) руб.	затраты рабочего времени (10)		(13) про- ект цены (руб.)	затраты рабо- чего времени (14)				затраты рабо- чего времени		затраты рабо- чего времени		затраты рабо- чего времени		затраты рабо- чего времени			
				час. (11)	мин. (12)		компенсация: (15)				час.	мин.	час.	мин.	час.	мин.	час.	мин.		
							без учета (16)		с учетом (17)										час.	мин.
				час.	мин.	час.	мин.	час.	мин.	час.	мин.	час.	мин.	час.	мин.	час.	мин.	час.		
1	Хлеб (18)	(33) 1 кг	0,28	0	12,6	0,84	0	37,8	0	31,9	0	5,8	0	11,5	0	19,0	0	18,8	0	47,5
2	Говядина (19)	"	2,00	1	29,8	3,00	3	44,7	3	10,0	0	13,0	1	6,0	2	0	1	15,0	2	47,0
3	Свинина (20)	"	2,10	1	36,4	4,25	3	11,0	2	41,5	0	17,0	0	42,3	1	28,0	0	52,3	1	23,0
4	Куры (21)	"	3,00	2	16,9	4,00	2	59,8	2	32,0	0	9,0	0	19,5	0	49,8	0	37,5	1	7,0
5	Свежее молоко (22)	л	0,28	0	12,5	0,50	0	22,5	0	19,0	0	5,3	0	4,5	0	8,3	0	40,5	0	39,3
6	Рыба (23)	1 кг	1,24	0	55,7	1,90	1	25,4	1	12,2	0	20,3	0	55,5	3	3,0	0	30,0	1	23,0
7	Масло (24)	(25) 1 кг	3,50	2	40,0	6,50	4	52,1	4	6,9	0	22,8	0	33,5	1	50,0	1	11,0	2	37,0
8	Масло растительное	л	1,65	1	15,3	2,50	1	52,3	1	35,0	—	—	0	15,5	0	25,5	0	24,8	0	59,5
9	Яйцо (26)	1 шт.	0,11	0	4,8	0,18	0	8,1	0	6,8	0	0,3	0	1,0	0	1,5	0	1,8	0	3,5
10	Картофель (27)	1 кг	0,15	0	6,7	0,38	0	17,1	0	14,4	0	2,8	0	3,0	0	5,8	0	15,0	0	19,0
11	Рис (28)	"	0,88	0	40,5	1,40	1	2,9	0	53,2	0	4,5	0	24,3	0	18,3	0	11,3	0	25,5
12	Сахар (29)	"	1,00	0	45,3	1,52	1	8,3	0	57,8	0	3,5	0	7,3	0	16,8	0	22,5	0	26,3
13	Чай (30)	"	9,60	7	11,3	14,00	10	29,0	8	51,9	—	—	2	34,0	2	12,0	6	0	4	17,0
14	Кофе (31)	"	20,00	15	16,1						0	33,8	1	30,0	2	0	11	55,0	25	5,0
15	Апельсины (32)	"	2,00	1	31,5						0	5,8	0	9,3	0	8,8	0	22,5	0	53,0
	Мужской шерстяной костюм (36)		180,00	137	22						10	45	20	15	42	45	87	15	129	00
	Рубашка мужская (обычная) (37)		10,00	7	38						1	30	2	30	4	15	3	45	6	00
	Пальто мужское (38)		120,00	90	35						10	15	14	30	42	45	11	15	69	30
	Туфли мужские (39)		35,00	26	43						2	15	6	15	8	30	12	30	15	00
	Женское осеннее платье (40)		60,00	45	47						2	30	18	30	30	30	8	00	22	45
	Бензин (41)	л	0,40	0	18,3						0	1,0	0	3,5	—	—	0	13,5	0	21,3
	Квартира двухкомнатная (42)	(47) 1 мес.	12,00	9	10						21	00	24	45	36	30	56	00	119	00
	Квартира трех-четырехкомнатная (43)	"	15,00	11	27						24	30	32	30	70	00	87	15	198	30
	Холодильник (200—250 л) (44)	(45)	350,00	267	06						19	00	35	00	67	00	214	00	476	00
	Телевизор (цветной) (45)		700,00	534	12						31	00	97	00	134	00	187	00	516	00
	Автомобиль (46)		6500,00	4961	00						753	00	—	—	1463	00	3490	00	7143	00

Table 1. Expenditure of Work Time To Obtain a Wage Necessary To Acquire Individual Types of Commodities (Auto Manufacturing)

Key:

1. USSR
2. United States
3. FRG
4. Italy
5. PRC
6. Malaysia
7. In order
8. Unit of measurement
9. Price (averaged) in rubles
10. Expenditure of work time
11. Hours
12. Minutes
13. Planned price (rubles)
14. Expenditure of work time
15. Compensation
16. Counted
17. Not counted
18. Bread
19. Beef
20. Pork
21. Chicken
22. Fresh milk
23. Fish

24. Butter
25. Vegetable oil
26. Eggs
27. Potatoes
28. Rice
29. Sugar
30. Tea
31. Coffee
32. Oranges
33. Kilogram
34. Liter
35. Each
36. Men's wool suits
37. Men's shirts (regular)
38. Men's overcoats
39. Men's slippers
40. Women's autumn dresses
41. Gasoline
42. Two-room apartments
43. Three-four-room apartments
44. Refrigerators (200-250-liter)
45. Television receivers (color)
46. Automobiles
47. Month

Work conditions (underground, harmful, dangerous and so forth), territorial included, should be considered with the aid of a system of coefficients to these wage rates and salary schedules approved by the state.

The wage rates and salary schedules are guaranteed and binding on enterprises of all forms of ownership. This is the limit below which the remuneration of workmen may not fall whatever the results of economic activity.

The purpose of indexation within the framework of the transition period is to maintain the real content of individual's monetary income at the level of the social safeguards established by the state.

The most representative index from the viewpoint of the mechanism of regulation of individuals' monetary income is the consumer price index (CPI).

Selection of the consumer goods and services used to calculate the CPI is a fundamental issue. They should be commodities reflecting the most prevalent consumption structure characteristic of a specific period and territory.

Under current conditions the CPI "basket" may be formed on the basis of the current minimum consumer budget and will be confined to commodities of current consumption. The procedure of the composition of the consumer price index should be uniform on a republic scale.

The adjustment of expenditure on free services under conditions of inflationary price rises is a special question. Periodic revisions of current monetary quotas and norms in the sphere of free services in accordance with the rate of inflation are preferable.

Inasmuch as indexation is not directly connected either with the quality or the quantity or the fruitfulness of labor it is important that the indexation mechanism not deform the remuneration system.

The program presupposes prior to the end of 1990 on the basis of economic and legal methods a strengthening of the social protection of the population, particularly its needy strata, large families, invalids, retirees and students.

It is recommended introducing for this purpose as of 1 December 1990 a system of individuals' income-indexing. And establishing that payments from the social consumption funds (pensions, scholarships, benefits) and also fixed income in sectors of the nonproduction sphere be indexed in accordance with the consumer price index from budget appropriations. An adjustment of wages in the nonproduction sphere not only depending on the consumer price index but also with regard for the wage index in the production sectors is possible for the purpose of equalizing the amounts of the average monthly wage of persons employed in the production and nonproduction sectors.

People working at state-owned enterprises will be compensated for an increase in the cost of living in the form

of a periodic increase in the wage fund in accordance with the value of the consumer price index. The source of the monies for indexation for a profitable enterprise will be its **financially autonomous income**. As far as unprofitable enterprises are concerned, the need for compensation for price rises for their outfits by way of allowances from the budget may possibly arise in the context of overall policy in respect to them. The indexing of individuals' savings will be introduced together with the indexing of nominal income.

The specific values and periodicity and also the mechanisms of the indexing of nominal income will be specified in the course of realization of the program depending on the situation in the financial and monetary and credit sphere and the state of the consumer goods market. They will be determined by the successes of the stabilization period.

The introduction of free prices pursued stage by stage and under supervision with the preservation of the low price of commodities of special social significance combined with the indexing of monetary income should not give rise to negative consequences. However, permanent supervision of the state of the consumer market will be exercised to prevent a sharp increase in prices and an appreciable change in the structure of individuals' consumption.

In the event of inauspicious trends developing and also given deliberate curbs on nominal income, commodity interventions, for which stocks of inexpensive consumer goods, imports included, will be held in reserve, will be made. As a result an increase in real income may be secured even given a nominal reduction in income thanks to a growth in the purchasing power of the ruble.

Certain groups of the population should under the conditions of transition to market relations be the target of special social programs. It is primarily a question of the elderly and invalids living alone and independently and also orphaned children and large families. Satisfaction of their vitally important food, housing and medical needs and other types of service should be ensured via such programs. It will be necessary at the regional level (the local soviets) to create special services for the implementation of such programs with the extensive enlistment in their activity of public and religious organizations.

At the first stage, while the state of the economy is unstable, the funds of such services should be formed from the local budgets. Subsequently an increasingly large part here will evidently be played by allowances from the commercial activity of the enterprises and organizations located on the corresponding territory.

It would be expedient within the framework of the special social programs at the initial stage of the transition to the market economy to satisfy some of the most important vital requirements of the corresponding categories of the population on the basis of normed distribution in physical form.

The areas and forms of implementation of the special social programs may appear as follows:

(1) Группы населения, нуждающиеся в помощи	(2) Вид помощи		(5) Периодичность	Источники ресурсов: 1 - республиканский бюджет, 2 - местные бюджеты, 3 - средства предприятий и организаций, 4 - благотворительные фонды (6)	Уровень принятия решений: 1 - республиканский, 2 - местный (7)
	(3) денежная	(4) натуральная			
Старика, инвалиды (8)		Бесплатное питание (15)	1 раз в неделю	2 - собесы (26)	2
		Уход (16)	постоянно	4 - фонды социальной помощи (27)	2
		Ремонт жилья (17)	1 раз в 2 года	3, 4	2
		Скидки и цены на лекарства (18)	постоянно	1	1
		Организация ярмарок-распродаж уцененных и старых вещей (19)	по сезонам	2 - отделы торговли исполкомов местных Советов (28)	2
		Расширение бесплатной медицинской помощи (20)	постоянно (29)	1	1
Дети (9)		Бесплатное (21) содержание в детских дошкольных учреждениях (для неполных семей, семей студентов, семей военнослужащих 2-х и более детей)	постоянно	1, 2, 3, 4	1, 2
		Бесплатное школьное питание (22)	- " -	1, 2	1
		Расширение бесплатной медицинской помощи (23)	постоянно	1	1
		Детское пособие (24)	1 раз в месяц (30)	1	1
Все категории населения, имеющие денежный доход (10)	Индексация доходов (12)		не реже 1 раза в год (31)	1, 2	1, 2
	Повышение уровня минимальной заработной платы до прожиточного минимума (13)		единовременно (32)	1	1
Безработные (11)	Пособие по безработице (14)		в течение 18 месяцев после окончания работы (33)	1, 2, 3	1
		Организация центров по переподготовке кадров (25)	постоянно	2, 3	1, 2

Key:

1. Groups of the population in need of assistance
2. Type of assistance
3. Cash
4. In-kind
5. Periodicity
6. Sources of resources: 1—republic budget; 2—local budgets; 3—enterprise and organization monies; 4—charitable foundations

(Continued)

7. Decision-making level: 1—republic; 2—local
8. The elderly, invalids
9. Children
10. All categories of the population with monetary income
11. The unemployed
12. Income-indexing
13. Rise in level of the minimum wage to the subsistence minimum
14. Unemployment benefit
15. Free meals
16. Care
17. Repair of housing
18. Reduction in the of medication
19. Organization of fairs and clearance sales of cut-price and old items
20. Expansion of free medical assistance
21. Free attendance at preschool (for single-parent families, families of students and families with two and more children)
22. Free school meals
23. Expansion of free medical assistance
24. Child benefit
25. Organization of personnel retraining centers
26. Social security
27. Social assistance funds
28. Local soviet executive committee trade departments
29. Permanently
30. Once a month
31. Not less than once a year
32. One-time
33. For 18 months after having stopped work

The amount of the resources necessary for realization of the social programs is a special question. Current social statistics prevent in practice a comprehensive and in-depth evaluation of the actual processes characterizing the living standard of different groups of the population and its regional singularities. The pace of their restructuring lags considerably behind the dynamism of the ongoing changes. It will be necessary subsequently to upgrade budget surveys of the population by territory, introduce in practice periodic sample surveys and one-time statistics and create special price-monitoring services and much else.

The absence of source information does not at the present time permit a reliable estimate of the extent of the resources needed by the republics for the implementation of measures to stabilize the population's living standard. This will have to be done in the course of realization of the program simultaneously with the restructuring of the republics' statistical services.

The demonopolization and decentralization of the process of the gathering and processing of statistical information are essential. Particular attention within the framework of the preparation for realization of the program should be paid to the formation of a special system of social indicators.

They should serve as particular barometers of the state of the social sphere and trends in the living standard of different groups of the population.

The system of indicators should be comprehensive and could include a number of traditional indicators of social statistics reflecting the most sensitive aspects of social processes like, for example: the dynamics of neediness, the numbers of unemployed, price dynamics, the level and rate of inflation, commodity backing for the ruble, real income, real wages and so forth. An important role together with this will be performed by periodic assessments of the changes occurring in the public consciousness and the study of public opinion on specific issues.

Special statistical surveys are essential as preparatory measures prior to the realization of a section of the program.

A specific set of these indicators should be studied in detail in accordance with stages of the program. Proceeding from the goals of each stage and the situation which has actually taken shape, the level of the corresponding social indicators will be evaluated. A deviation will be a warning of undesirable trends emerging and grounds for the use of effective mechanisms.

The elaboration of a system of indicators will make for particular attention at all stages of the reform to the statistical authorities and also the services studying public opinion.

	1.1.90.	(1) Меняю- щие работу (за год) (3)	(2) Нашед- шие работу	1.1.91.	Меняю- щие работу (за 6 месяцев) (4)	Нашед- шие работу	1.7.91	Меняю- щие работу (за 6 месяцев)	Нашед- шие работу	1.1.92
Трудовые ресурсы млн. чел. (5)	164			164.70			165.10			165.40
Занято в н/х (6)	139.30			139.40			138.10			134.80
Незанято в н/х (7)	24.70			25.30			27			30.60
в т. ч.: (8)										
учащиеся (9)	11			11			11			11
неработающие (10)	7.70			8			8			8
безработные (11)	6	17	16.70	6.30	10	8.30	6	15	11.40	11.60
из них: (12)										
постоянная (13)	4.50			4.70			5			6.10
фрикционная (14)	1.50			1.60			3			5.50
Средний срок пребывания безработным, мес. (15)	1			1			1.50			2
Среднее пособие по фрикцион- ной безработице руб./мес. (16)	нет (23)			нет			200			200
Сумма выплат по фрикц. без- работице млн. руб. (17)	нет			нет			2000			4500
Среднее пособие по пост. без- работице руб. мес. (18)	нет			нет			100			100
Сумма выплат по пост. безра- ботице млн. руб. (19)	нет			нет			3000			3660
Всего пособий по безработице млн. руб. - нараст. итогом (20)							5000			13160
Затраты на службу занятости и организацию общ. работ млн. руб. - нараст. итогом (21)							2000			3500
Всего затрат на службу заня- тости млн. руб. - нараст. (22) итогом							7000			16660

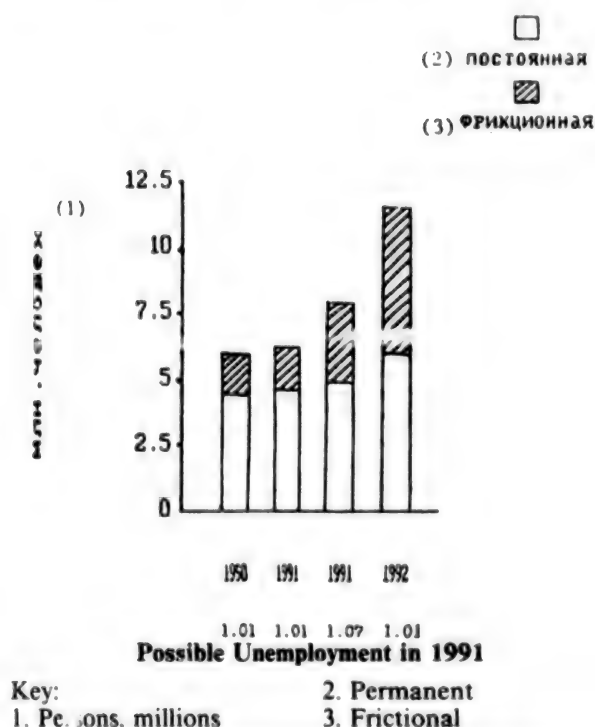
(24) Примечание: Под фрикционными безработными имеются в виду люди, находящиеся без работ в связи со сменой места работы.

Unemployment in the National Economy

(forecast given implement of the measures of the program in full and on schedule)

Key:

- | | |
|---|---|
| 1. Changing jobs | 15. Average length of time unemployed, months |
| 2. Found work | 16. Average frictional unemployment benefit, rubles per month |
| 3. Within a year | 17. Total frictional unemployment, rubles, millions |
| 4. Within 6 months | 18. Average permanent unemployment benefit, rubles per month |
| 5. Labor resources, millions | 19. Total permanent unemployment benefits, rubles per month |
| 6. Employed in the national economy | 20. Total unemployment benefits, rubles, millions, cumulative total |
| 7. Not employed in the national economy | 21. Expenditure on the employment service and the organiza-
tion of public works, rubles, millions, cumulative total |
| 8. Including | 22. Total expenditure on the employment service, cumulative total |
| 9. Trainees | 23. None |
| 10. Nonworking | 24. N.B. What is meant by the frictionally unemployed is people
out of work in connection with a change of place of work |
| 11. Unemployed | |
| 12. Of whom | |
| 13. Permanently | |
| 14. Frictionally | |



The program of the economy's transition to market tracks, clearly oriented in time, will provide each citizen of the country with a clear idea of the transformations of a specific period, the opportunities which open up to him as a result of these transformations and their influence on the living standard and the forms of protection against negative phenomena. The comprehensiveness of the transformations in all spheres of the economy will afford opportunities for maintaining the population's living standard and keeping losses which arise to a minimum. Realization of these opportunities will depend primarily on how great the people's support for the program's proposals and the assertiveness of each citizen in its realization are inasmuch as it is he who is the principal character of the transformations in the country.

5. The Labor Market

It is essential to make the basis of all characterizations of labor activity the right to labor as a most important right of the individual. Under the conditions of society's democratic development the main characteristics of employment should be evaluated on the basis of the interests of the individual and his general social state, social protection and social position. Man's free say is an obligatory condition in his choice of lifestyle and determination therein of the place of socially useful labor, forms and practices of employment, extent of labor participation and type of professional activity.

Upon organization of the manpower market the main goal should be concern to free people from compulsory labor. Citizens' right to the voluntary nature of labor, freedom to

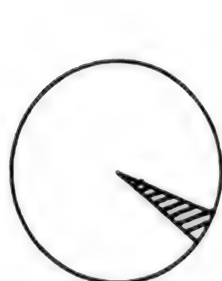
move around the country's territory and outside it and to freedom of choice of the place where they work, regardless of its territorial location, forms of ownership and work practices, should be written into law. All types of socially useful activity should be recognized in legislation as being equally necessary to society and equally accessible to the citizens. Any type of activity which is not in conflict with the constitution and which is associated with satisfaction of personal and social requirements should be classified as socially useful.

The program is geared to ensuring the formation via union and republic legislation of an organized labor market, which implies the following:

- first, the presence of conditions for a voluntary choice between employment and nonemployment in social production and free choice of occupation and type of activity (other than those which could be injurious to the health and safety of other citizens) with regard for both individual interests and social requirements. In other words, freedom of the supply of manpower;
- second, freedom to hire and fire employees for all employers (in the shape of state institutions and establishments, cooperatives, tenant outfits and so forth), given obligatory compliance with the rules of labor legislation and protection of the citizens' interests in respect to employment guarantees, conditions of work and its remuneration. In other words, freedom of demand for manpower;
- third, free movement of wages and other legitimate types of income, given observance of the guaranteed minimum established by law. Regulation of the upper limit of income only via a tax system based on a progressive scale.

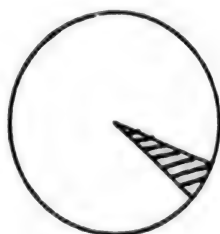
In turn, a special mechanism should be created for the realization of these goals incorporating the following basic components:

- a broadly accessible system of vocational guidance, training and retraining;
- a ramified network of employment bureaus undertaking locally the regular registration of job vacancies and persons seeking work, decisions on questions of the payment of benefits to the unemployed and other types of assistance to them, advice and brokerage services for the citizens in finding work, assistance to enterprises in hiring workers and the solution of other personnel problems and in the development of personnel planning;
- national and local data banks on the demand for manpower and its supply;
- special programs for stimulating the growth of employment in labor-surplus areas and assistance in finding work for individual groups of the population experiencing particular difficulties in this respect (youth without sound professional training, women with children, invalids, persons who have served time and so forth);



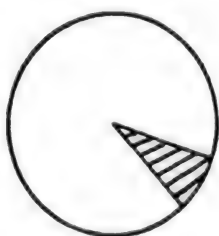
1 января 1991 г. (3)

□ (1) Занятые
▨ (2) Безработные



1 июля 1991 г. (4)

□ Занятые
▨ Безработные



1 января 1992 г. (5)

□ Занятые
▨ Безработные

Key: 3. 1 January 1991
1. Employed 4. 1 July 1991
2. Unemployed 5. 1 January 1992

—a system of the study and forecasting of the state of the national and regional manpower markets;

—a mechanism operating on a democratic basis of the formulation of a general strategy and specific scientifically substantiated programs of the regulation of professional training and employment.

In respect to this program two periods of the development of the labor market may provisionally be distinguished. At the first, transitional, stage, whose main task is extrication of the economy from the state of crisis and the creation of a multistructure market economy, the main purpose of official policy in the sphere of employment will be the establishment of new legal, economic and social conditions of the use of labor resources. The second period will be characterized by a stabilization of the labor market, completion of the formation of a ramified efficient job-placement system and the training and retraining of personnel and full implementation of measures pertaining to the social protection of the population.

It is essential to embark immediately in all republics on the elaboration and realization of special subprograms.

The employment service under current conditions should play a key part both in providing enterprises with the necessary personnel and in helping the workers find jobs.

Together with the colossal strain in the economy from the shortage of the necessary manpower there are at the present time in the USSR in practically all sectors and professions approximately 6.5 million unemployed, according to certain data. In addition, it is estimated, approximately 20 percent of workers and employees change their jobs annually, losing on average approximately 30 days here.

In the 1990's the country's labor resources will be replenished by young people (over 42 million persons or 26 percent of the total numbers of the able-bodied population). It will thus be necessary to find work for approximately 22 million school graduates and approximately 20 million young specialists who have graduated from higher educational institutions and secondary technical educational institutions.

Account has to be taken here of the demobilization of servicemen and conversion and the structural reorganization of the economy and also the very painful problem of refugees (forced migrants). The overall load on the employment service could in individual years be very substantial. Tens of millions of people will be in need of jobs. It is for this reason essential to create a highly efficient employment service, in which professionally trained and highly paid specialists should work.

An important place in the activity of the employment bureaus should be occupied by a systematic analysis of the state of the labor market and a forecast of the changes therein making it possible to see with sufficient accuracy forthcoming processes in the employment sphere and possible complications both in job-placement and in provision of the economy and individual regions with manpower. This will make it possible to well-foundedly confront the local executive authorities with questions concerning the creation of new jobs at the time of the modernization or liquidation of enterprises and also, where necessary, concerning postponement of their closure date.

The main part in the organizational structure of the employment service should be played by government territorial employment bureaus of a broad profile, which could provide for the gathering of information on both the need for manpower and those in need of work and undertake their job-placement and social support. At the same time, however, the creation of auxiliary specialized services which would complement the activity of the territorial bureaus, studying questions of the employment of certain categories of the population in depth, is essential.

For the purpose of reflecting the actual state of affairs on the labor market it is expedient for all hiring records to be registered with the employment services. This applies to people finding work independently also. It is the duty of enterprise management to give notice of a job being filled and the applications for manpower being withdrawn.

It is essential to define legislatively employers' legal and financial responsibility for providing the employment bureaus with reliable information on the vacancies and also for the concealment of instances of people being hired without these bureaus having been notified.

All enterprises and organizations, regardless of the form of ownership, must in relation to the employment service be accorded equal conditions upon acquisition of the necessary manpower and bear equal responsibility for the information they provide.

Citizens in need of work should be registered and recorded statistically with the following groups of the population being distinguished:

- the unemployed proper, that is, people who had a job previously and who have lost it for circumstances beyond their control;
- graduates of educational institutions who were not provided with jobs on an allocation basis and who have not found work for other reasons;
- those who have not worked previously;
- persons who have interrupted their labor activity for a lengthy period of time and who wish to return to the labor sphere;
- servicemen of the officer corps and the rank and file released into the reserve;
- persons who have served a term of imprisonment.

In addition to the listed categories of the population seeking work, it would be legitimate to permit registration in the employment service of people who have jobs, but who wish for this reason or the other to change them. Such services will require payment, possibly, but will be accessible to all. People without work will take precedence, naturally. However, for the balance of the market and assurance of the necessary manpower transfers and

inter-profession and territorial migration it is essential to organize such work immediately.

A most important function of the employment service is providing in conjunction with other interested parties **guarantees and compensation for employees** released in connection with the reorganization and liquidation of enterprises. A broadening of the possibilities of preventing unemployment and a broader set of means of supporting those who have lost their jobs are an objective necessity.

When making a decision on the large-scale release of manpower, management notifies the territorial employment authorities and the employees themselves of this ahead of time, within the established timeframe (2-3 months). Those being cut are paid compensation from the employer's resources for loss of work in the form of a discharge benefit for the period established by legislation (4 weeks, for example), regardless of whether the employee has been found a new job in this time. Persons of pre-retirement age are accorded the right of early retirement on pension. A version of the joint financing of pensions from the **resources of the Pension Fund and the Employment Fund** up to the time when the employees reach retirement age is possible.

In the event of a new job not having been found in the period that discharge benefit is paid, the able-bodied citizen acquires the right to unemployment benefit. The introduction of a payment of unemployment benefit of the order of 70 percent of the average monthly wage for the first 3 months following discharge, 60 percent for the next 3 months and then 50 percent for a year may be recommended as a possible option.

The value of the Employment Fund and the total amount of resources needed to maintain the living standard of people who have lost their jobs will be determined in the republics since the differences in the dynamics of unemployment, the structure of the nonemployed able-bodied population and the degree of its mobility make preliminary estimates approximate and ill-informed.

Establishing the uniform status of the unemployed person with a list of quantitative criteria at the all-union level would hardly seem possible. The legislative structuring of the general principles and qualitative criteria accepted on the whole territory of the country is seen as being more justified. Their quantitative decoding should be passed on to the jurisdiction of the republics, which, if necessary, will delegate some powers to the krays, oblasts and, possibly, smaller territorial units. The mechanism of the apportionment of responsibility will increase the flexibility of the policy of glasnost and enhance the responsibility of the territories in the solution of job-placement questions.

It cannot be ruled out, although it is unlikely, that a person will still not have found work within the established timeframe and will lose the right to unemployment benefit. It is essential to provide ahead of time for

possible methods of social assistance like, for example, poverty benefit in monetary and physical-material form, allowances for the payment for accommodations and municipal services and the use of public transport and so forth. The specific list and extent of such assistance should be determined by each republic independently, with regard for local singularities.

It is essential in the arsenal of weapons of preventing unemployment to provide for public works in accordance with a contract with municipal services of the local soviets. These works should not be confined merely to the construction and maintenance of highways and buildings but should extend to all enterprises which are municipal property. If possible, public works may be organized at other enterprises on the administered territory. Those employed in public works do not receive unemployment benefit if the level of pay in the new job is higher than the amount of this benefit. General social safeguards, including the right to a pension, pay given a doctor's certificate and so forth, extend to them. Public works may be financed by the **government unemployment services** and the local executive authorities on a shared basis. Considering that centralized resources for this purpose will be limited, it is essential that they be distributed on a competitive basis, preference being given to areas with a manifest manpower surplus.

People released from the public sector of production and their possible employment in the cooperative and individual sectors cannot be lost sight of. The practice of extending preferential credit to those who so desire could stimulate such a transition.

It is obvious that certain obligations should be entrusted not only to those who have lost their jobs but to the employers also.

When planning on a mass release, which could sharply upset the balance of the labor market, it is essential to afford the employment services the right in conjunction with the local soviets to postpone for a period of up to 6 months the decision on the release or take advantage of the right to veto the release decision. Wages for this period should be paid either wholly from the Employment Fund or on a parity basis with the enterprise.

Economic units which simultaneously with a release organize the general retraining of the employees should receive tax benefits or the possibility of partially covering their expenditure from the Employment Fund.

The system of social protection applies to all working people. For the first time an economic program takes account of the specifics of individual social and demographic groups of labor resources whose competitiveness is for objective reasons limited.

Pertaining to the individuals who find themselves with the status of insufficient competitiveness are, first, people with inadequate characteristics compared with others (physiological—invalids; age—young people aged 14 to 16 and people of pre-retirement and retirement

age; social-domestic—women with small children and persons caring for sick relatives; qualification—persons wishing to take a job for the first time (unskilled workers). Second, persons not employed by virtue of a structural reorganization of production, that is, the unemployed.

The system of social support should consist of two parts: social payments (pensions, unemployment benefit, other forms of social assistance) and social benefits facilitating the search for work and, consequently, a steady income (reserved jobs, acquisition of qualifications, special terms of remuneration and work practices). The correlation between them will depend on the actual socioeconomic situation. But the presence of the two components of the system is obligatory inasmuch as the problem of social support of individuals cannot be solved with the help of monetary payments alone.

In this connection it is expedient:

- to extend the list of pursuits in which the use of women's labor is prohibited;
- to establish for the enterprises and organizations quotas for the hiring of graduates, proceeding from the situation which has taken shape regarding employment of the youth and the development prospects of specific enterprises;
- to finance an expansion of the current network of specialized enterprises, an increase in the demands made on the conditions of invalids' conditions of work and the establishment of allowances in respect to its remuneration.

Among the sources of financing of the system of social support for the population in the immediate future, an exceptional role should belong to the republics inasmuch as it is now they which are responsible for the socioeconomic stability of society. An active policy of the creation of social assistance resources and also pension funds from the working people's savings would seem premature since the working people's income is not high enough. Such an approach could have negative consequences in the future inasmuch as the correlation between the working people's consumption and savings would be disrupted.

In the course of the development of the market economy and, accordingly, the free manpower market there will undoubtedly be changes in the current practice of the **trade union movement**. The process of the creation of parallel unions, whose main task is protection of the workers against an understatement of the cost of manpower and the inordinate intensification of labor, will evidently continue.

The new organizations of working people will more often, it would seem, be created from below, and the forms thereof will be highly diversified, depending on the forms of ownership, particularly at the early stage.

The emergence also of types of working people's organizations which are essentially not professional is possible.

The unions at such enterprises also will perform their initial primordial function of protection of the working people's interests in the traditional key—via dialogue with management, the conclusion of collective agreements and so forth. At the same time the specifics of joint-stock operation will open to them one further form of activity—the system of participation. We refer to a variety of systems of the unions' participation in the control of production and the economy.

Introduction to such activity would enable the unions, not confining themselves to "bread and butter" demands, to raise their assignments to a higher level and, first and foremost, join in the solution of the most acute problem—the surmounting of the workman's profound alienation from the means of production.

An important sphere of activity of the union associations is dialogue with the state authorities of various levels and participation in state regulation of social relations as a whole and labor relations in particular via the incorporation of their representatives on a parity basis in various bodies—both advisory and empowered—shaping and realizing the social policy of the country and the regions. The unions have a significant part to play in the elaboration of social and labor legislation and, subsequently, must exercise their own "extra-departmental" supervision of compliance therewith at all levels.

6. The Enterprise Under Market Conditions

Transition to the market economy will entail a change in strategy and tactics in management of the individual enterprise. This applies particularly to the enterprises which will be the first to leave or be removed from state control.

As soon as the basic measures in the sphere of financial and credit and monetary policy are implemented, a period of decisive changes in production will begin. The priority tasks for people working in the enterprise management apparatus are the conclusion of business contracts and determination of the competitiveness of the product range. It is essential to formulate the fundamental directions of operations broadly and freely interpreted locally.

New conditions of the incipient competition will be connected not only with the growing influence of the factor of economic risk but also the advantages of free pricing and the possibility of independent choice of suppliers and consumers and the increased quality of raw material, intermediate products, semi-manufactured goods, components and items.

The main task of management at the enterprises will be the organization and notification of each member of the outfit of necessary, objective information and an explanation of the new aims of work. When an atmosphere providing for group decision-making is created, all those

employed at the enterprise will be able to contribute to the adoption of most complex decisions to the full extent of their possibilities.

Transition to the market economy will entail a cardinal change in reference points in the activity of the enterprise. The enterprise should have only economic goals—an increase in the efficiency of production, profit maximization and the winning of new markets. No ideological factors should influence the decision-making processes. All-state and republic interests are the concern of the government, which will exert the appropriate regulating influence with the aid of economic methods.

The process of denationalization of the economy will take several years, but changes in the internal life of the enterprises should be occurring in the next few months. The principle of the noninterference of the authorities and political organizations in the enterprises' internal affairs, including the wage level, the numbers of the permanent staff and the organization of production, should in this connection be enshrined legislatively and in practice at the initial stage of the reform. This will mean the disappearance of the "superior organization" concept, that is, sectoral ministries, main administrations and other superstructural authorities must forfeit all rights to interfere in the enterprises' internal affairs.

Simultaneously with this the state will be absolved of all responsibility for the state of affairs at the enterprises, the level of the wages of its employees (over and above the official minimum), the provision of production with raw material and intermediate products and for the sale of its products.

The functions and rights of the owners (state authorities) must be strictly limited. For state-owned enterprises this means the appointment of executives, for the joint-stock enterprises in which the state has the controlling block of shares, strategic decision-making; the appointment of executives, profit distribution and an increase in share capital.

The key figure in the control of the enterprise should be its leader—the manager. He should possess the maximum authority on all matters concerning the activity of the enterprise and be answerable only to the proprietor for the financial results of activity and a change in the value of the capital entrusted to him.

Under the new conditions there can be no question of the appointment of enterprise executives in accordance with a decision of superior and, even more, political bodies. The system of reserved party positions must be conclusively eliminated. At the same time elections of an executive may be held only in cases where all employees are stockholders or shareholders of the enterprise. The appointment of executives is the prerogative of the owners, who venture their money. A competition to choose the best trained and promising managers is announced here. The managers themselves work on the basis of a scheduled contract, which clearly defines all terms of hire.

Responsibility for the state of affairs in and the authority of the enterprise subdivisions will rise appreciably. Abandonment of the centralized plan will enhance sharply the role of intra-firm planning and the elaboration of enterprises' strategy and tactics on the market. All this will require a strengthening of all economic services and the sales and marketing subdivisions and a rise in the level of the internal organization of production, but at the same time also a new quality of the executive personnel and the rapid reorganization of the system of economic education in each republic to bring it closer to practical requirements.

The relations of the working people, owners and managers within the enterprises must change also and will be built on the basis of consideration of their interests. The main instrument of their mutual concordance should be a new collective contract, upon whose conclusion annually mutually acceptable decisions on questions of the growth of remuneration, intra-production discipline and an improvement in working conditions must be found. Such an approach will require the "gentlemanly" conduct of all parties: if an agreement has been reached, premature changes therein cannot be demanded. This applies primarily to strikes.

There must be a change in the role of the labor unions. It is essential to separate their functions as defenders of the interests of the working people and as distributors of social services. Union membership must be voluntary, and social safeguards for the employees should not be dependent on it.

Consideration of mutual interests requires the speediest introduction of new forms of the working people's interest in the enterprise's profits:

- the wage will be oriented toward the average market level and its growth will take account of the rate of inflation;
- the organization of supplementary pension plans for the persons employed at a given enterprise;
- the organization of preferential systems of the working people's acquisition of stock of their enterprise.

It is on this basis that it is necessary to develop active, purposive work on an improvement in labor norm-setting and its rational organization and to independently elaborate systems of the remuneration and stimulation of labor and also control of its quality. It is important also upon concordance with the workforce to strengthen labor discipline on new principles.

7. The Opening Up of the Economy and Foreign Economic Policy

Initial Principles

The opening up of the USSR economy and its incorporation in world-economic relations is a principal goal of the reform. Foreign economic relations are on the one

hand an important factor of acceleration of the transition to the market economy, on the other, a shock absorber mitigating the negative consequences of the transition.

Essential for the successful accomplishment of the task pertaining to the opening up of the economy and the use of the potential of foreign economic relations are:

- preservation of the USSR as a single economic space with a common monetary and financial and currency system and uniform principles of regulation of the economic activity of the economic subjects;
- preservation of the common territory of the USSR for the purposes of customs and currency control and the uniformity of the regulation of foreign economic relations. Otherwise they would be a source of the disintegration and collapse of the all-union market and would increase the trends toward the emergence of barriers in the way of interrepublic supplies;
- a reorientation of foreign relations in the interests of the development of the single all-union market, which presupposes both the use of foreign competition and the protection of individual sectors of industry and agriculture;
- the need for strict state regulation, which would differ fundamentally from the monopoly of foreign trade, thanks to a separation of the functions of administration and commercial activity, the equality of all subjects of foreign economic relations in respect to the regulation norms and authorities and transition to generally accepted instruments of regulation (the currency exchange rate, customs duty, subsidies, taxes, interest rates, import curbs and licensing, standards).

A condition of the successful development of foreign economic relations is the creation of the corresponding legislation maximally approximating world practice. It must clearly define the regulatory functions of the executive and legislature at the level of the entire union, the republics and the local organs of administration.

In October-November of this year, therefore, laws and prescriptive enactments will be adopted on foreign investments, currency control and currency regulation, the licensing of foreign trade, the customs system, joint-stock companies and such. The basic regulatory laws will be enacted at union level and will be ratified by the republics, and the corresponding republic enactments will be tied in with them.

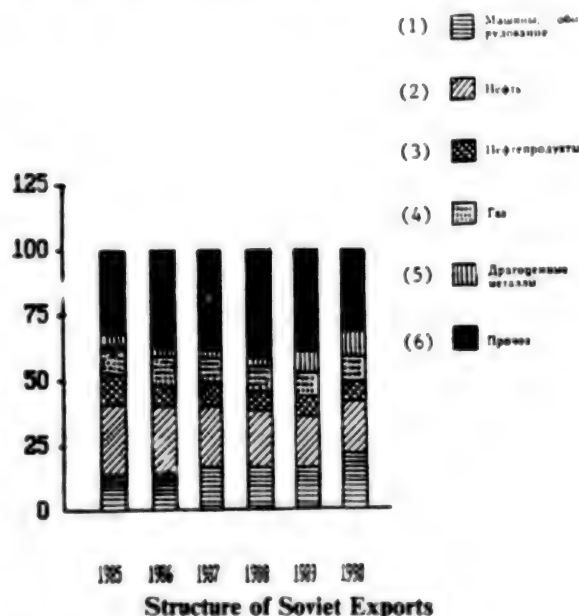
All the republics will negotiate a common customs, currency and foreign trade policy with the creation of the corresponding union regulatory authorities.

All-union regulatory functions, in the sphere of currency policy included, will be exercised via the Union Reserve System Managerial Council, the USSR Finance Ministry, a body created on the basis of the USSR State Foreign Economic Relations Commission and Ministry

for Foreign Economic Relations and the Customs Control Administration. The union republics will delegate specific functions to these bodies, and the latter will shape common policy and will be entirely free of any commercial activity. The bulk of the practical functions within the framework of the common rules and policy will be exercised by the republic authorities (in addition to the customs house).

Foreign trade activity in 1991 will switch practically wholly to the enterprise level. Authorities of all levels will step aside from commercial transactions. The foreign trade associations of the Ministry for Foreign Economic Relations will prior to the start of 1991 be converted into joint-stock companies operating on a commission basis. State authorities of the republics, banks and enterprises may participate in their capital. The goal of such companies is, thanks to high specialization, to secure for Soviet enterprises as both the manufacturers of export products and importers better conditions compared with those offered by foreign companies, protect the interests of our enterprises on the foreign market and enable them to realize the right of choice: to engage in export-import themselves or via a middleman.

In the course of 1990-1991 the right to engage in international currency transactions will be accorded approximately 10-15 of the best prepared commercial banks. A system of licensing by the republic ministries of finance of enterprises' and organizations' foreign borrowing within the limits of republic quotas coordinated at government level will be introduced as of the fall of 1990.



Key:
1. Machinery, equipment
2. Oil
3. Petroleum products
4. Gas
5. Precious metals
6. Miscellaneous

The basic potential for an increase in currency earnings in the transition period is connected with an increase in the extent of processing of raw material products, an improvement in the quality thereof and the better use of market conditions. There are in respect to a number of areas of exports (timber, oil and petroleum products, gold, diamonds) proposals concerning an increase in currency earnings without the additional involvement in turnover of the source raw material. An urgent stock-taking of these proposals and their realization in specific areas at the level of the republics and the union as a whole are essential.

Big opportunities are contained in the development of **labor-intensive industries** oriented simultaneously both toward exports and the satisfaction of internal needs. These opportunities may be utilized by way of the comparatively simple modernization (given the involvement of foreign capital) of such industries as garment and leather and boot and shoe industry and home electronic appliance assembly.

It will be necessary to preserve for a certain time the state monopoly on vitally important export items (oil, gas, gold, diamonds). Such exports will be the principal source of the currency resources of the republic and local authorities.

Proceeding from the actual state of the Soviet economy and its lack of balance, tax and other stimulation of import substitution will produce relatively rapid results for the development of the home market and a rise in products' competitiveness and the population's living standard. A situation has now taken shape where exports are being made, with a great deal of difficulty, to pay for the growing imports of commodities which we can and must produce ourselves (grain, meat, rolled ferrous metals).

In the sphere of imports decentralization may be implemented at an accelerated pace. There may as of 1991 be a **sharp reduction in centralized imported supplies**, grain and equipment included. Provision could be made for the obligatory acquisition of licenses by the holders of foreign currency for decentralized imports. Enterprises which acquire imports on state credit terms must pay in addition to the basic debt the interest also.

An increase in imports in the proportion of consumer goods and production products for **small businesses** producing consumer goods, food products and building materials and also equipment for the retooling of mechanical engineering would be expedient under today's conditions. All this is practicable given a reduction in imports of raw materials, semi-manufactured commodities and production engineering equipment. This process will be regulated by means of foreign trade and customs policy at the first stage of the reform.

The Currency Exchange Rate and the Currency Market. Convertibility of the Ruble

The development of the reforms will require a solution of the question of the **ruble's exchange rate**. As of 1

November 1990 the system of differentiated currency coefficients (DCC) will be eliminated and a single ruble exchange rate for commercial and noncommercial transactions applied in the state's relations with citizens and enterprises will be introduced. Subsequently this rate will be adjusted by the Union Reserve System with regard for the state of the balance of payments, the liberalization of pricing and the level of market rates.

The official currency market in the form of the buying and selling of currency at the official rate of exchange will be supplemented by the gradual development as of October 1990 of a **free currency market** with determination of the exchange rates on the basis of supply and demand. The source of the resources of this market will be the constantly growing sphere of the state's currency resources, enterprise currency funds and the currency resources of individuals.

Organizationally, the market will be formed on the basis of authorized banks and exchanges and numerous exchange outlets in accordance with common rules laid down by the currency control authorities. State currency resources will be sold at auction. Restrictions on the transfer of currency between republics will not be permitted, but strict currency control will continue in respect to foreign states.

A certain stabilization of the market price of the ruble, given the success of the measures of the first stage of the reform, may be expected by the start of 1991 (from the present R20-R25 to the dollar to R5-R8). By this time the strict monetary and credit policy will be forcing the sale of currency to obtain rubles. Only then will the mechanism of market regulation of the exchange rate on the part of the Union Reserve System begin to work. By the end of 1991 the market rate should be the sole rate.

There are two scenarios of progress toward convertibility of the ruble.

According to the **first**, it is necessary to create a new system of **currency relations**, which would appear as follows:

a) all currency receipts will be entered in the account of the enterprise; the state monopoly will be retained for a fixed amount of the proceeds from exports of oil, gas, gold, diamonds and a narrow range of other commodities;

b) some of the currency will at a single exchange rate obligatorily be sold to republic authorities. The percentage allocations will be determined in accordance with consolidated commodity positions;

c) the republic authorities will transfer some of the currency to the center for servicing the foreign debt and all-union needs, and the remainder will be sold on the market or used to support republic programs;

d) enterprise currency will be used for imports (given an import license), will be sold on the market, will be saved and will earn interest.

The **second way** is more radical and presupposes the immediate confiscation of foreign currency from the domestic economy. For this it is **necessary to close off its main source—currency allocations from exports**. Enterprises would sell some of the currency earnings at a single exchange rate to banks authorized by the republics (with their subsequent distribution among union, republic and local authorities). The rest of the earnings would be sold within a specified time via the free currency market. If an exporter, like any enterprise, wished to import something or other, he would have to obtain an import license and purchase the currency. Proceeding from international practice, the preferability of the second scenario is obvious, but its adoption will require considerable political resolve.

Citizens have the right to freely purchase and sell currency and open currency accounts. The transfer of currency and ruble resources abroad is limited by currency control rules.

A practice of the limited internal convertibility of the ruble without any forms of currency settlements between Soviet corporate bodies and individuals and without currency stores, that is, without factors of the "dollarization" of the economy undermining the purchasing power of the ruble, will in fact be introduced. The development of the market mechanism will be counterposed to the profoundly mistaken principle of currency self-financing. Everyone will have access to foreign currency, not just exporters.

It would seem expedient to adopt the first version as of 1 January 1991 and to attempt by 1992, as the prerequisites mature, to effect a transition to the second version.

Whichever version is adopted, the center will be deprived of the role of currency monopolist. Union currency reserves will be preserved for catering for the foreign debt, but they will be **collective property**. Simultaneously the sovereign republics may create their own currency and gold reserves.

The level of the rates of the obligatory sale of currency to the authorities will be agreed among the republics in order to create for all enterprises a single currency practice. As market relations come into being, the state's share in the distribution of currency will consistently be reduced.

Attraction of Foreign Capital. The Foreign Debt

Incorporation in the world economy may be facilitated by the large-scale attraction of foreign capital and technology. Such investments would have an effect in the medium term even and would shorten the transition period.

It is in our interests to **attract foreign investments in various forms**, including the 100-percent foreign enterprise registered as a Soviet corporate body (joint-stock company) or as a branch of foreign companies and the

redemption of the existing joint ventures or construction projects on the basis of contracts and concessions.

Legislation on foreign investments will be enacted to this end prior to 1 November 1990 and restrictions on the extent of foreign participation in a venture will be canceled, companies with foreign participation will be established by way of registration and prohibitions on many types of entrepreneurial activity will be removed.

The "enclave" approach in respect to the activity in the USSR of foreign capital: the aspiration to create closed "free economic zones," the curbs and prohibitions on business transactions in rubles for joint and foreign companies and the attempts to formulate for foreign investors special economic legislation or to guarantee the exchange of the ruble earnings of a foreign partner for free currency for transfer abroad, has not been justified.

Essential among the measures to attract foreign capital are:

1) The creation before the end of 1990 at republic and regional level of state organizations which will deal with questions of the attraction of foreign investments (of the former Main Committee on Concessions type).

2) The creation of new channels for the attraction of foreign investments in the form of **investment funds** with the participation of foreign capital. The stock of Soviet enterprises would be sold to foreign companies via such funds (with certain restrictions in respect to sectors and spheres of activity).

3) The enshrinement in legislation of the **principle of the equality of Soviet enterprises and foreign investors**. The economic activity of foreign investors on the territory of the USSR should be determined mainly by the **common rules** of Soviet economic law. In this connection the free economic zones need to be developed as regions where the dismantling of the administrative system proceeds more quickly than elsewhere.

4) The immediate authorization for foreign companies of **transactions in rubles within the USSR** without right of export. This measure would lead to an increase in demand for the ruble, which is a condition of future convertibility, and would contribute to ensuring that foreign enterprises reinvest ruble earnings in the USSR, and not aspire to take them out in foreign currency.

The granting to foreign investors of tax and other concessions will require a **differentiated sectoral approach**. The maximum effect would be produced by foreign investments in such sectors as:

- the agro-industrial complex, including food industry and agricultural machine building;
- wood-processing and pulp and paper industry;
- information science and the manufacture of computers and modern communications hardware;

—the sphere of circulation (domestic wholesale and retail trade and the banks).

The stimulation of foreign enterprise should not be confined to tax allowances. It is essential to create a **comprehensive system of the attraction of foreign capital** based on clear-cut political guarantees, the training of personnel and the preparation of an infrastructure, security and a system of supply lines. This task should be tackled by republic bodies for attracting foreign investments.

The West is discussing the possibility of granting the USSR extensive **economic and financial** assistance in amounts of up to \$10-\$20 billion. A key question is the mechanism of distribution of the currency and material resources allocated the USSR. It is a question not of political conditions of the assistance but of guarantees which would ensure efficient use and the skilled, independent expert appraisal of the projects. The bodies created in the course of realization of the assistance (specifically, investment and other funds and distribution organizations) could contribute to the formation of market structures.

Three channels of the receipt of assistance are acceptable.

First channel. The receipt of nonrepayable assistance, food primarily, with the sale of commodities in the USSR at state prices and the earnings being entered into special accounts. The use of these resources for extending credit to the private sector would be agreed with Western governments. Consumer goods in the USSR would be sold both via the existing trading network and also via specially formed trading companies. Such assistance in large amounts is possible only in the event of the adoption of a radical program of reforms and the joint appeal to the West of M. Gorbachev and B. Yeltsin.

Second channel. Receipt of currency credits by the enterprises directly from international funds created within the framework of the assistance program both overseas and in the USSR. Such funds should be independent in determination of the recipients of the credit and the repayment terms. The activity of the funds would be undertaken in contact with government authorities of the USSR and the republics, but without state guarantees on our part.

Third channel. International currency and finance organizations of the IMF, World Bank and such type. This source could provide large-scale long-term resources, but it would also depend on consensus being reached within the USSR.

It is proposed in October 1990 on behalf of the USSR and all the republics beginning negotiations with leading Western countries and international organizations for the purpose of obtaining assistance and long-term credit on the security of the reform program. The negotiations could lead to a new Marshall Plan.

The USSR's foreign debt represents a big problem. In net terms (minus reserves) it has in the period 1980-1990 more than doubled. Each citizen of the USSR owes Western banks more than \$100.

The state of the USSR's balance of payments in 1989-1990 has deteriorated continuously as a consequence of both negative price conditions and domestic factors (decline in oil production). The overall foreign trade deficit for the year will constitute R10 billion. The possibilities of foreign borrowing are almost exhausted here, and a reduction in the offer to the USSR of short-term credit, which is not being covered by other borrowing, is being observed. The additional sale of gold, diamonds and other commodities and a reduction in the level of currency reserves are necessary under these conditions. All this is leading to a sharp increase in the cost of borrowing.

In 1991 the foreign trade deficit is to decline to R3-R6 billion as a result of a change in relations with the East European countries (transition to convertible currency).

Obviously, the balance of payments problem will not be solved without:

- the state's abandonment of the direct (planned) distribution of currency; the currency plan will be converted into a balance of payments forecast;
- elimination of the vestiges of the currency monopoly, that is, recognition of exporters' right to own currency;
- the precise delineation of the functions and power of the center, the republics, enterprises and citizens.

The balance of payments deficit should in 1991 be overcome by the new exchange rate policy, regulation of the movement of goods and capital, the creation of incentives for foreign capital and new approaches to the foreign debt.

It is necessary to determine the level of the USSR's foreign debt on 1 October 1990, permit merely its refinancing and subsequently conduct negotiations on the arrival at a formula of each republic's participation in repayment of the debt. It makes sense determining the specific share of each republic, without the legal apportionment of the total debt. All new union borrowing must be effected with the consent of the republics.

Official government and commercial external borrowing will be differentiated immediately. Official borrowing will be effected on behalf of the governments for the replenishment of reserves, commercial borrowing, directly or on behalf of specific organizations, enterprises and local authorities.

The regulation of foreign borrowing depending on the state of the country's balance of payments will be put into practice. Growth ceilings of both the official and aggregate foreign debt will be established annually, proceeding here from the debt level indicators accepted in international practice. In connection with the current

situation the aggregate foreign debt growth ceilings should be established immediately with determination of the quotas for the republics.

A system whereby the acquisition of foreign credit will be subject to licensing by the currency control authorities within the framework of the rules and quotas will be devised for **commercial borrowing**. License application competitions will be conducted and an order of priority established. Governments will not be held responsible in respect to such borrowing.

Attempts by the republics to independently attract large-scale credit are as yet risky. It is necessary to concertedly take advantage of the USSR's prestige on international markets, and the following are priority tasks, what is more:

- an improvement in the structure of the foreign debt in respect to term (reduction in short-term debt);
- commodity credit (intervention) of the order of \$2-\$3 billion at the end of the first 100 days of the reform;
- stimulation of new entrepreneurial structures.

For the purpose of reducing the USSR's financial claims on other countries measures will be adopted to obtain in 1990-1991 currency or consumer and other commodities supplementary to the plan to the extent of R5-R10 billion in domestic prices in payment for the credit that has been granted, even with a tremendous reduction in the nominal debt total. Simultaneously the USSR's assistance to other countries (other than minimal humanitarian assistance) will be reduced 70-80 percent.

Foreign Economic Practices

It is necessary to wholly de-ideologize our foreign economic activity. We need in relations with all countries and groups of countries to aspire to the **creation of uniform currency and trade practices**. Regardless of who our partner is, we need to be **guided by purely economic, commercial factors**. This presupposes a transition in 1991 to settlements in freely convertible currency and at world prices with all countries, Finland, Yugoslavia and Cuba included. There will be a switch from the interstate level of cooperation to the purely commercial level.

Relations with the CEMA countries will be built on the basis of the futility of this organization and an understanding that in the medium term these countries would like to use the USSR merely to ease the process of reorientation of their economies toward the West. The continuance with the CEMA countries of all forms of clearing and price nonequivalence is impermissible. A reduction in commodity turnover in respect to this group of countries to the optimum level is inevitable.

Establishing in 1991 profitable trading relations with all countries without exception, including, specifically, South Africa. Taking greater account of long-standing,

historically evolved traditions in relations with individual countries. Making active use for the establishment of business cooperation of contacts with Russians and other nationalities living overseas.

With the start of realization of the program of transition to the market the issue will be raised officially and negotiations will begin on membership of the IMF, the World Bank, the Bank for International Settlements, the Asian Development Bank, the GATT and other organizations. The process of the negotiations and membership will take quite a long time, but will make it possible to ascertain the position of the leading Western countries and the conditions of membership (the necessary internal reforms for this included). In any event, this will help accelerate transition to the market and in our obtaining the necessary advice and other assistance.

8. The Shadow Economy

At the present time the increased scale of the shadow economy is giving rise to public protests and numerous demands for an end to it and for an end to its influence on the authorities and other public institutions in connection with the deterioration in the country's economic position. Many people link the burgeoning of illegal shadow economic activity with the transition to the market here.

Yet it is precisely the other way about. The shadow economy is an essential complement to the administrative-command system. The more mechanisms of the distribution of commodities substitute for normal trade therein, the wider the field of activity for the shadow economy. Transition to the market is the most efficient way of eliminating it.

The vagueness and differences in interpretation of the "shadow economy" concept require a brief formulation of this concept and an assessment of the scale thereof.

With reference to the aims of this program the **shadow economy is defined** as the production, distribution, exchange and consumption of commodity and material values and services not controlled by society, that is, socioeconomic relations between individual citizens and social groups pertaining to the use of state property in mercenary personal or group interests concealed from the organs of state administration and the public. It incorporates all types of economic activity which are not accounted for and which are not regulated and which are distinct from those set forth in prescriptive documents and rules.

The current practice of the planning and management of the economy has become hopelessly divorced from real life and the requirements of the economic system, and the precise execution of all current laws, decrees, orders, instructions and directives would bring production to a complete halt. It may be affirmed that the shadow nature of the Soviet economy is growing impetuously.

The **structure** of the shadow economy:

The criminal economy—economic crime (embezzlement, mercenary crimes of office and managerial crime);

underground economic activity completely concealed from all forms of control (the narcotics trade, gambling, prostitution); common criminal offenses against citizens' personal property as a form of the extra-economic redistribution of income (larceny, robbery with violence, theft of personal property, racketeering).

The fictitious economy—the official economy producing fictitious results reflected in the current system of accounting and accountability as real results.

The informal economy—a system of informal interactions between economic subjects based on personal relationships and direct contacts between them and complementing or substituting for the officially established procedure of the organization and realization of economic relations.

The non-legalized second economy encompasses types of individual and cooperative activity which are concealed from control, that is, are either prohibited by law or have not been registered in the established procedure or are reflected in accounts to less than the full extent.

The highlighted components are not strictly isolated from one another, the boundaries between them are blurred, the transfer of resources from one sector of the shadow economy to another is a customary occurrence and noncriminal methods are transformed into criminal ones.

The **scale** of the shadow economy in the context of this program is of particular significance since the logic of transition to the market envisages the use of shadow capital in the interests of the whole population of the country. This will be an important factor of resource provision for the reform.

It is important to emphasize the need for an evaluation of the scale of shadow economy phenomena taken individually inasmuch as their economic content is heterogeneous and prevents a mechanical summation of individual estimates for obtaining an overall idea of the dimensions of the shadow economy. It is essential to differentiate between the volume of the commodity and material assets circulating in the shadow economy and the income of the persons participating in the shadow economy.

With regard for what has been said we shall adduce available estimates of a number of phenomena of the shadow economy. The fictitious economy. According to data of the USSR Gosplan, multiple invoicing constitutes 36-40 percent of the value of the social product, that is, in 1989 this was of the order of R600 billion.

Unproductive expenditure and losses, according data of the USSR State Committee for Statistics, constituted approximately R40 billion in 1988.

The manufacture of substandard output, the USSR MVD VNII [Ministry of Internal Affairs All-Union

Research Institute] estimates, amounts to R110 billion, and figure padding, to R15-R30 billion. Losses from the possible embezzlement of state and public property are put at R5.2 billion. Altogether the law enforcement authorities uncover 240,000-280,000 mercenary crimes in the economy annually, losses from which constitute R200-R255 million, and 250,000-300,000 persons participate in these crimes. Some 7-12 percent of the total number of cases is the work of a group of persons here. A trend toward the coalescence of common criminal offenses and economic crime and its intersectoral and interregional nature is being clearly recorded here.

Proceedings are instituted annually against 1.4-1.6 million persons for having committed mercenary administrative offenses, including 780,000-800,000 for petty larceny, against 550,000 for the unlawful use of motor vehicles and mechanisms, and against 45,000-46,500 for illegal involvement in individual-labor activity.

Estimates of other phenomena of the shadow economy:

- artificial shortages, R40 billion (All-Union Research Institute for the Study of Consumer Demand and Trading Conditions), concealment of goods from open sale, R6 billion (USSR MVD VNII);
- cheating of customers, R10.7 billion (USSR State Committee for Statistics), R4.4-R9.8 billion (USSR MVD VNII);
- in services as a whole, R14-R16 billion (USSR Gosplan Research Economics Institute);
- illegal price rises, R1.2-R1.5 billion (USSR State Committee for Prices);
- automobile profiteering, R5.7 billion, spares in automobile service, R1 billion, and income from profiteering in nonfood commodities, R1.3 billion, and alcoholic beverages, R100 million (USSR State Committee for Statistics);
- embezzlement of state and public property, R3.1 billion, petty larceny, R1.8 billion (USSR State Committee for Statistics);
- moonshining, R23 billion, including sales, R9 billion (USSR State Committee for Statistics);
- co-operators' bribes to officials, R1 billion, from individuals at the time of the acquisition, exchange and alienation of accommodations, garages, and garden plots and also their provision with amenities, R1 billion (USSR State Committee for Statistics);
- prostitution, R700 million, narcotics trade, R300 million (USSR State Committee for Statistics).

Unearned wage and unmerited bonuses for fictitious work (losses, figure padding, manufacture of substandard output), R30-R35 billion (USSR MVD VNII).

Thus according to all the sources on which there are estimates, income from the shadow economy constitutes

R66-R146 billion. R175 billion is one estimate of this income calculated on the basis of a comparison of the international standard of the proportion of personal consumption and the wage fund in the national income and the domestic level of this indicator, which makes it possible to estimate shadow income at 20 percent of the gross national product. Material resources totaling several tens of billions of rubles are engaged in the shadow economy also.

The main reason for the existence of the shadow economy on such a scale in our country is the absence of private ownership of the means of production and the preponderance up to the present time of command-administrative methods of the control of the activity of economic subjects. A principal factor creating soil conducive to the shadow economy is the difference between the prices of demand, which the consumer is ready to pay, and administratively established prices, with which the shortages and the financial distribution of commodity resources are inseparably connected. Fixed prices in a situation of shortages are profitable to those who have privileged access to commodities, whereas the rest of the population is forced to pay for them either in increased market prices or in the time spent in looking for the commodities and in waiting in line. In addition, an increase in artificial shortages becomes profitable.

The emergence and development of the shadow economy is essentially a fitting response to a significant extent to the inordinate regulation of economic activity and the fettering of the initiative of individual employees and the independence of the economic organizations.

Accordingly, the main measures pertaining to the elimination of the shadow economy coincide with the most important directions of the reform.

As world experience, that of the East European countries included, shows, over 90 percent of the volume of transactions of the shadow economy may be eliminated quite quickly with the aid of measures pertaining to formation of the market. The huge block of unsanctioned transactions of government business executives may be eliminated practically overnight here by putting an end to centralized directive planning and the monopoly of state ownership.

The program proposes the adoption at republic and all-union levels of decisions unconditionally providing for:

- the formation of a "middle" class in a privatization process implemented under conditions of the maximum glasnost and under the supervision of the soviets of all levels in accordance with special procedures;
- the creation of strong tax inspection with the incorporation in tax supervision on a broad scale of the appropriate services of the KGB and MVD. In addition to an appreciable strengthening of tax inspection,

this measure will make it possible to begin the "conversion" of the KGB and MVD, which will undoubtedly have beneficial social repercussions;

- the legal and practical protection of the citizens' and collectives' ownership of the means of production and income therefrom. The formation of special law enforcement professional organizations of the national guard type with clearly defined functions is essential for this purpose;
- the surmounting of monopolism in the economy by way, specifically, of the establishment of higher tax rates, a limitation of the price of products of the monopolists and other methods determined by anti-trust legislation;
- the gradual introduction in practice of citizens' annual submittal of income declarations to the inspection authorities. The re-computation of the amounts of tax paid in the course of the year (with regard for progressive taxation by the month) in relation to of the information of the income declaration return, which will neutralize citizens' desire to conceal one-time large income of theirs from legitimate activity from consideration owing to high monthly tax rates;
- the maximum reduction in a variety of instances of distribution per special systems (coupons, commissions, clearance sales and so forth), ensuring complete glasnost and control in cases where such systems are vitally necessary (for babies in arms and individual categories of patients), which will in itself reduce the amounts of shadow (unchecked) distribution and also eliminate the possibility of persons who engage in such distribution living as parasites on the officially approved private systems of distribution;
- the elimination of such organizational monopolies as sectoral ministries and, primarily, deprivation of their imperious distributive and redistributive functions, and the disbandment of the majority of middle-tier organs of administration;
- the revision and enactment of criminal and criminal-procedure, civil and civil-procedure and administrative legislation, providing therein for scientifically substantiated criteria of the criminalization and decriminalization of offenses in the sphere of the economy, increased liability under criminal law for the most dangerous types of economic crimes (organized criminal activity, tax evasion, money-laundering) and the elaboration of a law on preventing legal infractions in the economy.

Upon the detailed development of the program, calculations pertaining to specific amounts of the conversion of shadow capital and income for the economy and public consumption may be obtained.

Section III. Structural Policy and Conversion

1. Structural Maneuver in the Sphere of Investment

The evaluation of the present condition of the structure of the national economy is summarized as follows:

- the structure of the economy is deformed in the extreme: the overdevelopment of the defense and extractive industries and the investment sphere is combined with the underdevelopment of the production of consumer goods and the service sector; according to various estimates, excessive capacity amounts to between one-quarter and one-third of the volume of industrial production;
- the outlay-oriented nature of the economy, the poor standard of technologies, and direct losses of production are responsible for putting an excessive load on the environment; the economy depends on imports to a considerable degree whereas the diversification of its export potential is low.

This is why at present the main tasks of the structural policy are to redistribute resources in favor of the consumer sector of the economy, to renew technologies qualitatively, and to create sources of long-term growth. We consider unacceptable the proposals by virtue of which a structural maneuver should precede the introduction of market institutions and should be ensured within the framework of traditional (administrative) management structures. The lack of prospects along this road has been confirmed by the entire experience of development of the Soviet economy. On the other hand, the extent of deformations does not make it possible to let solely market arrangements accomplish the tasks of restructuring and to give up the implementation of a state structural and investment policy.

The objectives and arrangements for the structural maneuver in the short-term (a year to 1.5 years), medium-term (three to five years) and long-term outlook differ substantially.

In the 1.5 years to come, that is, during a period of transition, we may count mainly on shedding excessive capacity and drawing into production the freed-up resources which are not used at present.

It is necessary to complete the formation of market institutions and to have an economic structure the main proportions of which are balanced by the end of the medium-term period.

Long-range tasks include a fundamental renewal of technologies and a transition to a research-intensive and environmentally safe type of growth. The peculiarities of structural policy in the 1.5 years to come are considered within the framework of the program of transition to market relations. Ensuring a prompt response on the part of "natural flows" in the national economy to a maneuver in the monetary and financial sphere is the

focal problem of the short-term period associated with the pursuit of economic stabilization and a tighter credit and monetary policy.

It is impossible to create major new sources of commodity supply within 1.5 years; it is necessary to affect demand, restrict it sharply while at the same time stepping up the use of the released resources and of the available reserves and waste products.

Reductions in effective demand will occur at the expense of excessive state expenditures, inefficient production, and overdeveloped sectors of the economy. This reduction will be carried out from the first day of the reform on, initially through administrative and managerial decisions, and will affect the following spheres of the national economy:

- 1) The military-industrial complex.
- 2) The investment sphere.
- 3) Water-management construction, traditional types of geological prospecting, current repairs and overhauls of obsolete fixed assets, and other spheres where resources are expended inefficiently.
- 4) Ecologically dangerous production facilities and basic sectors of the economy—in line with the declining demand for their products.

Reductions in state purchases of some types of machinery (primarily military), lower volumes of capital investment and a general "investment drop," as well as the gradual discontinuation of subsidies for unprofitable enterprises with the simultaneous development of market institutions will be used to eliminate fictitious demand and a segment of surplus production capacity. In this manner, the budget will be freed from a considerable segment of expenditures, conditions will be created for normalizing monetary circulation, and a considerable amount of raw-material, energy, and other resources will be released due to lower demand by their traditional consumers.

Reductions in the procurement of weapons and military materiel and the switching of defense enterprises to manufacturing civilian products will occur within the framework of a new conversion program for the defense industry.

Balancing the demand of the state and enterprises for investor goods and bringing it in line with the resource potential of the investment complex will be equally important for attaining the immediate and long-range goals of structural policy.

The new investment policy should be based on recognizing the fact that an overwhelming proportion of production construction carried out at present is absolutely unjustified from the point of view of both the final needs of the national economy and the efficiency of resource utilization. The enormous scope of construction of production facilities is not covered by resources

and construction capacity which brings about prolonging the duration of construction by a factor of two or three. The unavailability of labor and raw materials for the capacities created means the immediate squandering of the resources of the national economy worth billions. The structure of the capacity being commissioned and under construction is itself still geared to expanding the production of raw and other materials and output for production and technical uses.

Under the circumstances, a sharp reduction of the number of construction projects under way at the same time and of production investment is definitely beneficial from the point of view of redistributing some resources for carrying out social programs.

This reduction should take into account the fact that the potential of different industries for adaptive development in the environment of reduced investment programs varies. Besides, it is necessary to take into account substantial differentiation in the technical standard of investment projects made in various spheres of activity.

At issue is the concentration of efforts and resources in the spheres which provide a maximum of returns and are the most attuned to the task of social realignment in the economy with simultaneous resolute reductions in the inefficient segments of capital construction. An analysis indicates opportunities for reducing or stabilizing the volume of productive capital investments:

a) **in the metallurgical complex**—investment may be reduced by 15 to 20 percent compared to the 1986-1990 levels due to reducing demand for standard types of metal products in conjunction with reductions in production investment, the shifting of high-quality metal from the defense sector of the economy to the civilian sector, as well as the expansion of the use of resources of obsolete scrap metal in view of increasing the rate of retirement of fixed assets;

b) **in the agroindustrial complex**—the volume of capital investment in agriculture may be restricted, with investment in the light and food industries growing by more than 30 percent, due to the retirement of considerable areas of animal-husbandry complexes without replacement, reductions in the delivery of expensive poor-quality agricultural machinery, and a sharp reduction of capital investment in land reclamation;

c) **in the machine building complex**—the volume of investment may be reduced to between 75 and 85 percent of the 1986-1990 level due to structural shifts in the final output of civilian machine building in favor of consumer products based on cooperation with industries of the defense complex, direct reallocation of the fixed assets of the defense industries for manufacturing civilian products, and the discontinuation of new construction of facilities for general machine building;

d) **in the construction complex**—the fulfillment of the planned construction program may be ensured with the existing scope of investment funding due to shifting

rapidly toward low-height housing construction and, in general, non-production construction, the expansion of the use of local construction materials, reducing the need for traditional construction machinery as the use of modern structural materials increases and design is improved, and an increasing segment of production construction is done in the form of remodeling and retooling;

e) in the "Transportation and Communications" complex—due to giving up the construction of new interregional railways, expanding the construction of approach lines, transportation interchanges and centers and augmenting the capacity of second tracks, gearing to solve the problem of the rolling stock, with a simultaneous sharp reduction in the construction of main pipelines and the maintenance on the whole of the existing scope of capital investment in the complex, it is realistic to increase investment in the development of local motor-vehicle roads, air transportation, maritime navigation, and investment in developing communications by 60 to 80 percent, as well as that in trade and material-technical development.

The situation imposes strict requirements for the speed of structural transformations. A reduction in inefficient production capital investment should be carried out immediately, in the course of the year, rather than gradually. A rational level of decline in the overall volume of production capital investment, which takes into account the qualitative standard of investment and actual need for it, is estimated to be between 20 and 30 percent.

At the same time, the need for the production of equipment will decline by between 15 and 20 percent as a result of such a policy. Load on the industries of producer-goods machine building and the volume of products manufactured by it will decline to the same degree.

Reduced production loads will mean, first, the formation of reserve capacity in machine building, second, the creation of conditions for technological restructuring and the renewal of production in machine building itself, and, third, will provide an opportunity for changing the output mix of a considerable segment of inefficient production facilities in favor of manufacturing products which the national economy and the populace need.

The initial impulse ensuring a reduction in production capital investment should consist of the adoption of a number of harsh administrative decisions beginning on 1 October 1990. The decisions call for the following:

1. To cancel all target-oriented investment programs compiled to date due to their failure to address the actual needs of the general economy. To reduce centralized investment in the production sphere and military construction by no less than 30 percent.
2. To carry out an inventory of state enterprises already under construction on the basis of an independent expert review with a view to determining the expediency of

continuing construction, proceeding from the criteria of social orientation, technical level, and standard duration of construction (this duration should be reduced previously).

In keeping with the results of the inventory, no fewer than 60 percent of the production-oriented construction projects currently under way are to be conserved, and simultaneously a sale of facilities under construction, equipment which has not been installed, and material stocks should begin in October 1990, including sales to foreign investors. To use the results of an inventory of unfinished construction projects taken by the USSR Gosstroy in 1990 in order to speed up the review.

3. To restrict demand for non-centralized investment funds by increasing the interest rates on loans effective October 1990, taking into account a transition to free (contract) prices for construction output. It is possible to set an upper limit of two years for the duration of the construction of facilities during the period of stabilization in the economy. Tax and credit preferences will be granted to non-state investors, as well as to the contractor organizations themselves if they build the facilities of the socio-cultural sphere.

4. Demonopolization of construction: In November 1990, all general-construction ministries will be eliminated, and territorial associations and trusts which at present control up to 60 or 70 percent of the contractor market and resources of construction materials will be broken up. Construction organizations will be made extraterritorial and independent of the local authorities. The banking system for providing investment loans will also be demonopolized; the decision-making powers of leading design institutes will be eliminated.

Radical changes should affect not only the processes of creating new assets and capacity (investment policy) but also, and perhaps to an even greater degree, the operation and reproduction of the already created production potential of the national economy (the policy of renewing fixed assets).

The liquidation of centralized funds of the ministries, reductions in subsidies to unprofitable enterprises, and an increase of interest rates on loans will create a difficult financial situation for many enterprises. The demand of the state for many types of products will drop. The shedding of excessive capacity under these conditions for the retirement of assets (up to five percent a year in 1991-1995) and the elimination of a considerable (up to 20 percent) segment of production assets—the least effective one—without replacement.

At the same time, a profound structural maneuver performed on a schedule this tight may entail serious negative consequences, namely:

—"bottlenecks" in the structure of production will restrict opportunities for the reallocation of resources;

- the stoppage of some production facilities will bring about disruptions in technological chains;
- a considerable segment of resources released as a result of the structural maneuver will not be put to use;
- a segment of the scientific-technical and cadre potential of the economy will be lost.

It is necessary to steer and monitor the course of structural transformations and carry out a number of special measures in order to prevent the development of these and other unfavorable processes.

First, market institutions, and especially infrastructure for the redistribution of labor and material resources are going to develop at accelerated rates. The reorganization of the system of job placement, retraining of its cadres, and the issuance of office equipment to them will begin as early as September 1990. Special programs will be developed for regions in which elevated unemployment levels are predicted. In special cases, employees will be paid full wages when production is stopped. Information on the material resources released will be collected in special data banks at commercial centers through which the sales of surplus equipment, material reserves, and wastes will be handled.

Second, some of the funds and material resources released will be used to eliminate "bottlenecks" in the economic structure (production of construction materials, new models of agricultural machinery, development of social and production infrastructure) and for support to enterprises changing their mix of output (the Conversion Fund, programs of aid to individual regions).

Third, the abatement of unfavorable tendencies of the structural maneuver will proceed through the use of reserve capacity, raw materials, and energy, both those available and newly created due to the drop in excessive capacity itself. Import deliveries, as the most flexible means for eliminating disruptions in technological chains, will acquire special importance during the period of transition.

While accomplishing the tasks of a short-term structural maneuver, we should not lose sight of long-term prospects for economic growth. This is why it is necessary to develop within half a year a concept, and subsequently a program, of long-term structural transformations once the implementation of the reform has been initiated and reliable information on the condition of the economy has been obtained.

In the course of the shedding of excessive capacities, particular attention will be paid to preserving the potential for long-range economic growth, and primarily the growth of:

- export-oriented production;
- the scientific-technical potential of the defense complex;

- the intellectual potential of the country;
- natural wealth and the recreation potential.

2. Conversion

The demilitarization of the national economy, the use of the accumulated industrial and mobilization military-industry potential which embraces both the industries of the defense complex themselves, as well as civilian production facilities which fill military orders, amount to the most significant avenues for the restructuring of the economy.

The conversion of the defense industry has the following objectives:

- reducing state expenditures due to cutting back military programs;
- improving the technical standard of civilian production by transferring advanced technologies and "know-how," as well as higher quality types of raw and other materials;
- redistributing material and labor resources from the military to the civilian sector of the economy;
- shedding a segment of excessive capacities while, on the other hand, increasing the volume of production of civilian output at defense industrial enterprises;
- the invigoration of new, research-intensive sources of exports.

In the environment of harsh financial restrictions, a program of a full-fledged conversion of the defense industry does not have a satisfactory outlook if rapid returns are expected in the alternative uses of the industrial and scientific-research facilities of the defense sector of the economy.

In a situation which is unfavorable for carrying out major investment programs, we may count on the use of non-capital-intensive variants of transferring resources from military to civilian production with small lead times within the next 1.5 to 2 years.

More capital-intensive variants will have to be ensured at the subsequent stages of the reform while consistently following a course aimed at the extensive commercialization of the defense complex enterprises and tapping foreign investments. The determination and preservation of potential sources of long-range growth should be an intermediate task for the immediately forthcoming period. The creation of modern production facilities with new technologies, powerful design and experimental facilities involved in designing and mass-producing military materiel, consumer durables, and standard investor products should be the **final result of conversion**. While retaining the peculiarities of the military segment of their production, these enterprises

should become economically independent and provide a foundation for the long-range growth of the emerging market economy.

Within the coming one to two years, considerable economic results may be secured by way of:

1. Transferring the reserves of raw materials, fuel, and materials (accompanied by revisions of the volume of reserve stocks) to the civilian sector, and switching a segment of the producers of the most mobile resources to filling non-military orders;
2. Reassigning production capacities which are capable of switching to filling civilian orders without a considerable expenditure of funds and time;
3. Transferring some of the labor released to vacant jobs in the civilian economy if the system of settlements and the professional training for doing new work so allow;
4. Switching the most flexible structures from the sphere of scientific and research and experimental design work to filling civilian orders.

Forms of Converting Defense Enterprises

1. The search for new markets (including exports) is expedient primarily in the event an industry uses unique, expensive equipment which cannot be used for performing other technological operations. In the process, technological rigidities and the lack of readily available alternative sources of orders may be accompanied by the absence of firm prospects in the domestic market due to high prices for the products manufactured. These aspects are neutralized by the updating of technologies aimed at reducing the cost of production and prices of products, or by finding markets where expensive high-quality products are sought after; however, this is a quite capital-intensive variant.

2. Conservation of the released capacity is expedient if there are no sufficient funds for conducting extensive modernization or changing the production mix of an enterprise (facility), but the latter does have considerable economic potential.

The shedding of finishing stages of the technological chains responsible for producing standard products while preserving funding for facilities in the sphere of scientific research and experimental design work (possibly with the retention of their defense specialization) amounts to a peculiar form of "active conservation."

The inability to receive useful returns right away from the wound-down production of military output is an essential drawback of this form.

3. The transfer of the reserves of materials and equipment which have ended their service life or become surplus (for example, Navy vessels) amounts to a form of passive conversion.

Difficulties in the use of secondary materials inside the country may now be compensated for by selling them abroad.

Some of the reserves released, in particular the reserve of chemical weapons, are subject to destruction, which requires considerable capital investment to create appropriate production capacities.

4. The newly created and retooled production facilities find themselves in an extremely unfavorable situation in a period of acute material-financial imbalances and the overall decline of production, primarily due to the lack of funds for investment.

From among the defense industries (shipbuilding, aircraft, missile, and other industries), only three—the radio- and telecommunications equipment, production of computer equipment, and manufacturing of electric measurement devices—have a realistic opportunity to penetrate civilian markets within a short period of time (one to two years).

Other industries may switch to manufacturing civilian products within their line of business either after a considerable period of time (5 to 7 years) and (or) given substantial additional capital investment, or they will be forced to look for development opportunities in other spheres of operation. Therefore, it is necessary at present to not only concentrate our main efforts on transferring the most flexible kinds of resource potential of the military industry into the civilian sector but also to concentrate on conserving a segment of capacity and creating conditions for the implementation of the available scientific-technical accomplishments.

Main Prerequisites for Utilizing the Scientific-Technical Potential of the Defense Complex

1) An inventory and legal protection of prior innovative accomplishments and the establishment of new procedures for declassifying information.

This step is compelled by the failure of Soviet legislation to comply with a number of international copyright acts; the failure to register a large number of developments which have considerable commercial potential; the illegality of a number of borrowed designs which makes the technologies used and the products manufactured tainted from the point of view of patents; the unjustified secret character of many developments needed in civilian production.

An inter-ministerial expert review service of the defense industry should assume responsibility for the functions of verifying the patent purity of products (technologies) in the course of their use outside the defense sector, and the engineering and economic evaluation of the condition of converted enterprises.

The use of the innovative potential of the defense complex will create the most real opportunities for overcoming a structural crisis in the civilian machine

building of our country. At issue are design and development potential, experimental services capability associated with preparation for new production, tools, rigging, sub-contracted products, research-intensive final operations, technology control means, and so on.

The following avenues are the most promising for attracting foreign capital:

- the use of the powerful potential of the isotope industry of the Minatomenergoprom [Ministry of Atomic Power Industry] for manufacturing high-purity materials, primarily for electronics (silicone, arsenide, gallium), optical electronics, as well as the electrotechnical industry;
- the realignment of the technological potential of missile building and radiation chemistry for developing the production of research-intensive small-quantity chemicals (catalysts, activators, plasticizing agents, and so on);
- the use of the machine-building potential of the nuclear and aerospace industries for manufacturing a broad array of diagnostic instruments and technological equipment for the chemical industry;
- extensive cooperation in the sphere of domestic designs of airframes equipped with engines and the systems of control and navigation which meet international requirements;
- the use of composite materials and a broad array of strengthening and protective coatings for the production of key assemblies of machines (primarily engines) which ensures a manyfold increase in the reliability of designs as a whole;
- developments involving the use of lasers in civilian systems;
- non-conventional energy sources.

It is necessary to carry out a non-ministerial expert review with the use of foreign consulting firms in order to detail a list of promising avenues for the use of foreign capital.

2) The removal of defense enterprises from corresponding ministries, granting them complete economic independence, including the right to operate in the world market.

No more than 20 to 30 percent of the enterprises of the now existing defense complex should remain directly subordinated to the state—enterprises which are profoundly specialized in producing armaments and military materiel, which ensure that the current defense sufficiency of the country is maintained.

Arrangements for the removal of enterprises from the military-industrial complex should be based on the release of property by the state and the transformation of these enterprises into joint-stock companies and joint enterprises.

The removal of a considerable segment of capacities of the defense complex beyond the framework of the latter will make it possible to set up a number of economically independent concerns with the following specializations:

- a metallurgical concern specializing in the production of high-grade steel, alloys, and machine-building technologies for processing at the facilities of some enterprises of the Ministry of the Defense Industry;
- a concern specializing in services for the technological preparation for the production of an extensive array of heavy machine-building products (drilling and mining equipment), axles for railway platforms, heavy press tools, and so on, based on enterprises for manufacturing artillery systems;
- an extensive network of small enterprises and companies based on enterprises producing firearms whose sphere of specialization may include a broad array of high-capacity die automatic and semi-automatic equipment, small standard equipment and tools, providing technological services (precision casting for the mass production of spare parts, the manufacturing of rigging by special order, and sub-contracted assemblies for technically sophisticated consumer goods);
- several large concerns and an extensive network of small enterprises associated with them, which produce a broad array of instruments for production and ecological uses, sub-contracted parts for consumer goods and so on, as well as concerns producing machine tools, electrotechnical equipment, and sub-contracted parts.

The scientific-production associations and design offices of the research-intensive branches of the defense industry which are able to manufacture dual-use products (radioelectronics, aircrafts, production of communication equipment, computers, and laser equipment) may be immediately switched to manufacturing civilian products within their production lines.

Among measures aimed at the conversion of the defense industries, we should distinguish the creation of a new technological base for increasing the production of electronic devices, improving their quality and reducing their prices. Concerns specializing in this field may be created on the basis of the enterprises of the Minatomenergoprom, Minelektronprom [Ministry of the Electronics Industry], and the Minradioprom [Ministry of the Radio Industry] with the use of foreign partners. In the process, it is necessary to prevent the mass production of goods which are not competitive in the world market. The use of isotope industry technologies and high-quality diagnostic devices will make it possible to increase sharply the percentage of usable products of the element pool of electronic devices, overcome their mass rejection, and reduce self-cost.

The use of the Minatomenergoprom enterprises plays a decisive role in attaining the competitiveness of electronic products. A 30-percent reduction in nuclear armaments and the ecological problems of the nuclear power industry have undermined the scientific-technical concept of the development of this ministry which was based on perfecting and mass-producing nuclear and thermonuclear weapons and the nominal efficiency of nuclear and thermonuclear power generation. At the same time, the Minatomenergoprom has at its disposal the already mined polymetallic ores which contain all elements needed for electronics, available technology, skilled cadres, as well as the necessary prior accomplishments in the isotope industry which are capable of ensuring a rapid increase in the production of pure and super-pure materials (at world levels of purity), and a powerful complete pool of control and measurement instruments and special equipment.

3) Preparing a market for the sale of research-intensive products inside the country is of key significance for reviewing the scientific-technical potential of the defense industries. The use of the satellite communications system already available in our country is inconceivable in the absence of a substantial expansion and modernization of reliable reception and relay services, as well as a network of terminal devices (radio telephones and so on). Since it is a quite capital-intensive version of commercial use of the scientific-technical potential of the defense sector, the preparation of the market for sales inside the country should proceed from opportunities for attracting foreign capital; in some cases, catering first of all to the prepared markets in Western countries should be made a priority.

4) The adoption of a new USSR defense doctrine changes the content of the notion "mobilization preparedness of the defense industry." The existing mobilization potential is rigidly determined by technology and is geared to the mass-production of already developed and adopted types of weapons and military materiel. Along with the industry of the defense complex, it embraces a broad scope of civilian industries which include special-purpose reserve capacities.

A special modification of the technological structure of all sectors of the national economy geared to a sharp increase in production for military uses is the most significant, though concealed, element of their mobilization potential.

At present, due to the rigid program and target-oriented principle of developing weapons and military materiel, first, the necessary prior accomplishments fail to be made in using the results of completed work on alternative avenues and, second, the creation of narrowly specialized potential calls for excessive costs which restrict the development of the civilian industries still further. Therefore, the development of the new model of research-intensive weapons is not accompanied by the enhancement of the overall technological standard of the civilian industries.

Extrapolating the obsolete concept of the formation of defense potential brings about losing an opportunity to bring this potential in line with the current tasks of defense. The pace of technical improvement of weapons at present is such that quantitative additions to old combat materiel cannot fully compensate for the use of new weapons by the enemy.

The essence of the modern mobilization potential is found in the ability of the civilian economy to step up if necessary, on the basis of dual-use technology, mass production of various military materiel which is not currently adopted.

This doctrine does not call for a mobilization potential as conventionally interpreted, as a reserve of production and power capacities, preserved special equipment, special stocks of raw materials, and so on which are prepared to mass-produce weapons extensively. The maintenance of such a mobilization potential which is not integrated into a market economy would continue to call for excessive expenditures by the state budget in the future. The existence of this potential is not advantageous from either the military or the economic point of view.

The Organizational and Legal Support of Conversion

In October and November 1990, legislative and normative acts will be adopted which regulate the process of reducing military orders, changing the output mix and laying up defense production facilities, and aiding the territories the most affected by shrinking back military enterprises and facilities.

It is envisaged to set certain deadlines for serving notice of the cancellation of orders, and deadlines and conditions for applying for pertinent aid. Secrecy procedures in the defense sector of the economy will be revised. The stabilization-oriented Conversion Fund will be set up, to which a segment of the funds secured due to reductions in military orders will be transferred. Indirect incentives are envisaged to encourage actions aimed at an alternative use of military installations and enterprises, especially non-state investment projects.

The following methods of indirect regulation of the process of changes in the production mix will be used:

- preferential taxation of the profits of defense enterprises generated by manufacturing civilian products;
- preferences in long-term loans to enterprises undergoing conversion;
- preferential taxation of profits generated by the export sales of finished products, as well as the incomes of collectives and organizations in the sphere of scientific-research and experimental-design work in the defense sector when their developments are applied on a massive scale in manufacturing civilian products.

The reorganization of defense enterprises is carried out at the expense of the moneys of the Conversion Fund

and under its supervision. In the process, the splitting of sections and shops which have unique equipment is not allowed; they are subject to conservation by virtue of a finding of an inter-ministerial commission.

Special attention should be paid to the job placement of employees released as a result of conversion or stoppage of defense production facilities. Programs of aid to the populace of the regions affected the most by cutbacks in military orders will be implemented.

3. The Construction Complex in the Environment of Transition to Market Relations

A transition to market relations in the investment complex will have to be implemented at accelerated rates in order to take advantage of smaller technological monopolization in the construction industry compared to industry and of the opportunity to quickly liquidate organizational monopolies, greater structural mobility, and receptiveness for the economic methods of management. The activation of the market is called upon to turn around a crisis situation in capital construction and to strengthen its role in the restructuring of the national economy.

The high degree of readiness of the construction complex for market relations is reflected in:

a) the existence of alternative structures of construction organizations.

As of 1 January 1990, the number of employees in cooperatives came to 16 percent of all employees; 5.7 percent of those employed worked in lease collectives;

b) the presence of a distorted market of considerable proportions in the form of bartering materials and amounts of contract work with a quite extensive network of middlemen;

c) the continuing crime-generating nature of the sector and the resulting acquisition of "quasi-market" skills of managing production by the lower echelon of managers.

A considerable reduction in demand for investment due to a sharp cutback in the expenditures of the state budget and a "freeze" on most of the unfinished construction projects is the most important prerequisite for the development of the market of equipment, construction materials, designs, and contract work. A drop in the volume of financing for capital investments will occur as early as the fourth quarter of 1990; investment demand will remain depressed for 10 to 12 months due to a strict credit and financial policy.

The establishment of market relations in the investment complex will proceed along three main avenues:

First—decentralization of the sources of financing for capital construction, the abandonment of concentrating all investment resources under the control of the state

and administrative allocation to industries and regions. The process which began in 1987 through 1989 will enter a qualitatively new stage.

In 1991, the following sources for financing capital construction will exist in our country:

—funds of the union budget;

—funds of the republic budgets;

—funds of local budgets;

—funds of enterprises and organizations;

—funds of the populace;

—foreign capital means.

The overall drop in investment demand will be accompanied by its redistribution in favor of individual spheres of the economy and non-state sources of financing for capital investment.

The situation with regard to individual groups of investors will change as follows:

1. Union budget. Realistically, centralized investment will account for no more than 15 percent of the total volume of demand. Most items of expenditure in the budget will be reduced, with the revenue being unstable and social expenditures mounting.

The role of the union budget as an investor will decline. Opportunities for starting new construction projects will mostly be reduced to eliminating technologically induced catastrophes (in the environment of a crisis, their number could increase). We should also add to this the elimination of the consequences of ecological catastrophes (Chernobyl, the Aral Sea, and so on).

2. Republic budgets. Their share in investment demand will range between 15 and 35 percent in various republics. Economic sovereignty, mutual settlements, and price changes will combine to diminish opportunities for accumulation in the republic budgets. Impatience of the populace with the ecological situation in the regions may be an extra load; however, rectifying the situation will call for construction and assembly work and considerable investment.

3. Funds of enterprises and organizations:

a) **Industrial enterprises, associations, and economic organizations** account for a large group of investors. Despite the rapid growth of their share in the structure of investment demand in recent years, there are several reasons for which a continuation of this tendency under market conditions should hardly be expected. First, in the absence of wholesale trade, some of the non-cash moneys from the funds of production development of customer enterprises were artificially reallocated for contract work. A market in the means of production may regain these funds for itself, and even win additional funds (taking into account the growth of prices for

producer and technological goods). Second, the shrinkage of the state sector in the process of denationalization will also mean a change in the treatment of their expenditures by investors. They will use a decline in investment demand to press for reductions in the level of cost estimates. Both the selection of projects and the attitude toward indemnities for damage if contract deadlines and quality of construction are not ensured will be different;

b) as far as the agrarian sector is concerned, its increasing role as an investor will be associated not with its currently unsatisfied investment demand but with the future situation, when a combination of the structural crisis and a transition to a market economy will create objective conditions for an actual redistribution of labor, material, and financial resources. The reason for this trend is found in the fact that a structural crisis is a form of spontaneous restoration of the violated proportions at the lowest point of the fall. The migration of resources to the agrarian sector may give an impetus for an investment "boom" in rural areas in both production and non-production construction. Therefore, the agrarian sector is going to have a high investment potential in any case.

4. Local budgets. The role of the executive committees of local soviets will objectively increase given the decentralization of management. Legislative acts adopted recently reinforce the financial base of local soviets. It should also be taken into account that as the real authority of the executive committees grows, so does their opportunity to influence the socio-economic policy of economic organizations; their participation in the development of the regional social infrastructure becomes more vigorous. With the elimination of branch ministries, the enterprises will find various forms of support on the part of the local organs of power increasingly necessary. Finally, increasing social tension caused by the economic crisis will additionally invigorate the search for independent solutions to various socio-economic problems by local soviets in their regions. All of the above makes it possible to count on the executive committees of local soviets acting vigorously in the contract market in their capacity as customers for housing, social, cultural, and municipal-economy facilities and other installations within the framework of job-creation programs.

5. The populace. Under an administrative system of management, this investment group was continuously discriminated against, except for housing construction cooperatives which were developed to an absolutely insufficient degree and "the shadow redistribution" of resources for private construction. Our transition to a market economy will substantially increase the role of investment by the populace. On the one hand, the development of entrepreneurship and opportunities for the realization of the potential of the people will bring about an increase in their income which will be allocated in part for productive investment and in part for housing construction. The latter should be promoted by the implementation of a housing reform. On the other hand,

the predicted migration of labor, material, and financial resources to the agrarian sector will create prerequisites for the accelerated development of socio-cultural and individual housing construction in rural areas.

In addition, the need to resettle the people from the Chernobyl zone and mass migrations from the areas of interethnic conflicts will also be reflected in the volume of investments by the populace.

6. Foreign capital. The absence of legislation and a stable situation in our country is a substantial influence on the investment activity of foreign companies. However, even now orders are being made through joint enterprises for building and remodeling the space provided in offices and hotels and the setting-up of small production facilities.

Switching to market forms of economic operations will give rise to new groups of investors which are now absent. Thus, we may visualize investment banks, companies, and international consortia playing this role. Organizations will be created on a joint-stock or share-contribution basis, and will order the construction of housing for subsequent sale or lease to renters. Given a substantial increase in their working capital, the construction organizations themselves may build facilities without initially having specific customers, hoping to sell the already completed facilities on their own. Still, we should not expect all of this investment demand to become apparent in the immediate future. At best, these forms and avenues of investment activity will become phenomena which are meaningful to any degree in 1993 and 1994.

Suppressing the excessive investment demand in 1990 and 1991 will be accomplished not only through a stringent budgetary and credit policy but also by means of releasing prices for construction output. In this case, a need for a tax on investment [projects] will become immaterial all by itself. According to a forecast by the USSR Gosplan GVTs [Main Computer Center], the possible index of price increases in the construction industry will amount to 1.3 in 1991 and 1.95 in 1992. The distribution of investment may be regulated by means of interest rates.

A system of regulated and price-list prices for the output of construction will be ineffective in any case, due to the arrangements for barter operations which are common even now.

The changing ratio of different sources of financing for capital investment and a structural shift in favor of building non-production facilities will also result in a shift in the structure of contract work, the assortment of construction materials, structures, and products manufactured, as well as the equipment supplied to construction sites. There will be greater demand for lumber and millwork, plumbing supplies, glass, insulation, ceramic tiles, wallpaper, linoleum, paints and varnishes, pipes, gas and electric ranges, elevator equipment, low-voltage appliances, cable products and lighting fixtures.

Requests may increase for refrigeration equipment, oxygen and special medical equipment for building health-care, trade, and public-catering facilities. At the same time, demand will decline for an assortment of products used for the construction of production facilities. A large-scale shift in the structure of output will take time, a considerable capital investment in converting the enterprises of the construction materials industry, and substantial changes in the structure of economic contacts and the flows of goods. It is very difficult to perform this maneuver in the environment of a transition to market relations; yet, it is impossible to perform it in the absence of this transition.

The republics and local soviets should consider the issue of providing financial and loan preferences for:

- expanding the production of construction materials and the necessary equipment inside the country;
- purchasing such materials abroad by enterprises;
- purchasing plants abroad for the manufacture of such products paid for with the funds of organizations and local soviets.

The issues of adaptation will affect the organization of production and management, a system of complete production and technical deliveries, the structure of the pool of machinery and equipment, the professional structure of construction organizations, relations with subcontractors, and many other issues. The very process of adaptation of construction organizations currently specializing in erecting industrial facilities will require that they introduce serious internal reforms; it will entail solving major problems of a material, financial, organizational, social, and socio-psychological nature. In the course of such adaptation, they should begin virtually immediately to compete for a niche in the changing and shrinking contractor market with construction organizations which have long been working on facilities in the non-productive sphere.

Abandoning the administrative, vertical assignment of customers and contractors and the development of a market of contractor work, a transition to a system of "contract bidding" is the second avenue for the formation of market relations in construction.

In the course of this, restrictions on signing contractual agreements will be canceled; state regulation will focus on:

- organization of bidding for contracts; holding such bidding for facilities included in state orders at union or republic levels will be entrusted to the USSR and union republic Gosstroy (State Committees for Construction) (or their analogs);

- organization of independent state companies of experts for reviewing the quality of designs and construction in the course of signing contractual agreements and insuring finished facilities, insuring against risk, and the performance of other financial operations;

- organization of an independent state service for licensing contractor organizations and holding bidding for contracts;

- reorientation of the USSR and union republic Gosstroy toward working out unified standards for construction, architecture and urban development approximating those of European countries, recommended norms, prices, and so on, and forecasts of the development of construction.

Contract bidding may be held publicly or behind closed doors. Public bidding is, in essence, tantamount to an exchange in which demand by customers and supply by contractors are balanced. Bidding behind closed doors is preferable in the event facilities are to be built which are quite sophisticated from the engineering point of view. In this case, a customer mails personal invitations to bid to the construction companies of interest to him, communicating to them the most important characteristics of the facility (type, scale of the facility, the required deadline and terms of construction). If a finished design is available, the interested companies have an opportunity to familiarize themselves with it, following which they furnish their proposals concerning contract terms to the customer. The customer reviews them, and compares them with the proposals of [other] potential contractors as far as the costs and deadlines for the execution of the contract, possible design improvements, additional conditions and guarantees are concerned. As a result, the contract is signed.

The introduction of state orders for the construction of facilities will only be practiced in a period of transition; it will be ensured through tax reductions or subsidies for customers (general contractors) from the union, republic, or local budgets.

The process of decentralizing management, creating multifaceted forms of ownership, and demonopolizing economic operations in construction will be the third avenue facilitating the development of market relations.

The policy of creating large structures (design and construction, design and manufacturing, and other types of associations) followed from the beginning of this five-year plan subsequently began to be replaced by the tendency to "split up" structures, in keeping with the logic of changes in the economic mechanism.

Many construction administrations are raising the issue of withdrawing from trusts and associations, believing them to be an unnecessary superstructure.

By giving administrations an opportunity to withdraw from a trust, the latter may transform itself into an

engineering and management company, reinforce its engineering service, and operate independently in the contractor market. In this case, it may work with its former construction administrations on the basis of subcontracting in the absence of present-day economic conflicts. Moreover, the trust will organize bidding on subcontracts, inviting both its former construction administrations and those of other trusts, cooperatives, lease collectives, and other construction organizations to take part in them.

When the trend in the construction market is sharply downward, the trusts themselves will be interested in this direction of their evolution because they will not be in a position to ensure work for all of their construction administrations and to subsidize the weakest among them. On the other hand, given downward trends, the construction administrations themselves may become interested in preserving trust structures as guarantors of their economic security.

Territorial construction associations will also have to undergo a serious evolution. A large segment of the apparatus of the territorial construction associations together with all non-productive organizations directly reporting to them should become the foundation for the emergence of a market infrastructure of the construction organization of a region. Commercial banks, commodity exchanges, wholesale companies, engineering, consulting, and implementation entities, leasing offices, auditor, factoring, and servicing organizations, and so on may belong to the organizations which in their entirety constitute the market infrastructure of a region.

All of them should operate as corporate persons, performing specific work, filling orders, and offering their contract services to construction organizations.

The organization of contract bidding may be yet another function of specialized companies spun off by the territorial construction associations.

The infrastructure of the labor market in construction should develop at an accelerated pace, taking into account a considerable drop in investment demand. Processes of reducing the needs of the organizations of the construction complex for personnel may be mitigated by their flexible reassignment to the facilities of non-productive construction and releasing some of their own volume of construction [as published]. Some of the laid-off employees will be taken in by construction cooperatives. A purposeful search for orders from abroad for specialized construction organizations is necessary. Special attention will be paid to areas of recent large-scale construction (Western Tyumen, Yamal, the Baykal-Amur Main Line, and so on).

While shrinking back the volume of investment and demonopolizing construction, it is necessary to preserve the technical and cadre potential which will make it possible to begin increasing investment gradually in 1.5 to 2 years. At the same time an opportunity exists to

overcome the downward trend in the volume of commissioned fixed assets even during the period of transition due to concentrating all resources on a limited number of truly necessary facilities of capital construction.

4. Development of Production Infrastructure

A transition to market relations will present higher requirements for the production infrastructure—transportation, communications, storage facilities. The formation of a market may be halted if the development of these branches fails to meet these requirements at least at a minimal level.

Meanwhile, the condition of the production infrastructure has been marked by a growing lag in recent years. In 1989, the freight turnover of all modes of transportation declined (with the exception of gas pipelines). In the process, the average distance of transporting one ton of freight increased in one year by an amount equal to its increment in the five previous years. Stocks at the warehouses of shippers are growing, which testifies to a slowdown in the circulation of material resources at a time of their most acute shortage. Losses to the national economy due to the unavailability of railway transportation alone are estimated to amount to 12 billion rubles a year. Losses of agricultural products amount to between 30 or 40 percent of the crop. Overall losses due to the underdevelopment of the transportation system are estimated to come to between 30 and 40 billion rubles a year.

This situation is attributable to a considerable degree to the backwardness of the material-technical facilities of production infrastructure. Between 1971 and 1990, the rate of growth of fixed production assets in transportation was 1.4 times lower, and in railway transportation 1.8 times lower, than in the national economy as a whole. However, even the funds allocated were used in an extremely irrational manner, primarily for projects such as the Baykal-Amur Main Line, but not for solving the most acute problems.

As a result, the following turned out to be the worst bottlenecks in the development of the production infrastructure:

- insufficient length of hard-surface roads for motor vehicles, especially in rural areas, their inadequate technical condition;
- lagging development of facilities for motor vehicle servicing (garages, parking lots, repair facilities, services);
- lagging development of servicing stations on the railways, a shortage of station tracks, above-the-norm wear of the tracks, structures, and rolling stock, and a shortage and imperfection of loading machinery and track-maintenance equipment;
- inadequate capacity of ports, due to which clogging with freight occurs, and the development of foreign

economic operations is hampered; the aging of the fleet: In 1989, the average age of vessels in the transportation fleet came to almost 15 years;

—in civil aviation, the aircraft and aircraft engines are 60 percent amortized. The equipment level of ground facilities is between 55 and 60 percent; planes and helicopters which have been in service since the early 1970's are the foundation of the fleet.

Extreme backwardness is characteristic of the system of communications and data transmission, which prevents foreign investors from investing capital in the USSR.

Storage capacities for various types of products, especially in agriculture, are insufficient, and their structure is not rational: Large storage facilities, warehouses, and elevators dominate which require long-distance transportation, while there is an acute shortage of small, technically well-equipped storage sites. Warehousing facilities at the wholesale level, in trade, and in the supply system are absolutely inadequate.

The condition of water and heat supply mains gives rise to concern, especially in the cities where they are the most important elements of amenities.

The situation is exacerbated by the fact that all types of production infrastructure operate at capacity and without reserves, whereas the normal operation of a market economy requires turnover capacity reserves of about 25 to 35 percent. Otherwise, economic partners cannot guarantee, for reasons beyond their control, that their obligations will be met. Contractual discipline is reduced to naught by failures to supply cars and other similar occurrences.

The issue is exacerbated by the fact that in the environment of a market economy enterprises will hardly invest funds in infrastructural facilities at first, giving preference to projects with a shorter recoupment period, all the more so because a harsh financial and credit policy which is unavoidable in the two years to come will lead to a reduction of capital investment in general.

It follows from the above that the republics, the union, and the local organs of power will have to assume a considerable segment of responsibility for urgent measures aimed at developing the production infrastructure. Apparently, it is necessary to resolve this issue through one of the special all-union programs for implementing which funds from all types of budgets need to be tapped, as well as the resources of the enterprises, population, and foreign investment. This program should have the highest priority.

According to an estimate by the USSR Academy of Sciences Institute of Economic Forecasting of Scientific and Technical Progress, the volume of capital investment in the production infrastructure in the next several years may be maintained at the previous level, given a considerable increase of its effectiveness, including [that achieved] through changing the structure of investment

by use. It is necessary to invest funds in developing the handling capacity of servicing stations, renewing the tracks and rolling stock while reducing the construction of main railway lines and pipelines. Investments in local roads for motor vehicles need to be increased by 20 to 30 percent, and those in developing communications and the material-technical facilities of trade and the supply system—by 60 to 70 percent.

With a view to taking advantage of the potential of the production infrastructure, it is expedient to implement denationalization and demonopolization on a priority basis in a number of its sectors—highway transportation, aviation, and navigation, to split up motor vehicle pools, and to set up a number of shipping lines and airlines on a joint-stock basis. At the same time, railway and pipeline transportation, the main road network, the infrastructure of shipping, and airports will remain the property of the state in the foreseeable future.

5. Land Reform and Agrarian Policy

The agroindustrial complex is the best prepared one for the introduction of market relations. Small and average-size enterprises, responsiveness to privatization and to price fluctuations weaken the impact of monopolistic tendencies. More than one-third of the consumption of foodstuffs by the populace is already provided within the framework of market relations in effect (personal auxiliary plots, kolkhoz [collective farm] markets, consumer cooperatives). The ratios of profitability levels, prices, and volumes of subsidies in the state sector are such that the introduction of a market economy will not change substantially the proportions and links which have evolved. The production of output for which the volume of subsidies is the highest (ilk, dairy products—65 percent of all subsidies by reason of price differentials) is an exception.

The subsidy factor which has developed into a complex socio-political problem will seriously impair the introduction of full-fledged market relations in the agroindustrial complex.

The following are the main tasks of the period of transition in the agrarian sphere:

- implementation of market relations in all elements of the agroindustrial complex, stabilization of the natural volumes of sales of subsidized foodstuffs, and the sale of additional volumes of products at freely set prices;
- implementation of a land reform, denationalization of land and fixed assets of the farms and enterprises of the agroindustrial complex;
- elimination of existing management structures and a transfer of powers to regulate agrarian relations to local soviets;
- development and implementation of special-purpose programs for developing the production and social infrastructure in rural areas.

Formation of Market Relations in the Agroindustrial Complex

Market relations in the agroindustrial complex will be introduced to their full extent, in all elements of this complex, without any restrictions.

In October, the setting up of a chain of commercial wholesale enterprises will begin.

Beginning in January 1991, production of the sectors of the agroindustrial complex will be sold through wholesale trade on the basis of freely set prices.

The interference of the state in the supply of material resources to agriculture will be aimed at overcoming the monopolistic attitude of suppliers (controlling prices, splitting up organizational monopolies, and creating parallel structures). No substantial price increases are envisaged in the course of switching to wholesale trade in products of farming-equipment machine building because the profit margin of this industry is quite high, whereas the degree of saturation of agriculture with the standard types of the produced equipment exceeds real needs.

At the same time, a market of used farm machinery will be created: specialized enterprises (former repair plants of the USSR Minavtoselkhoz mash [Ministry of Automotive and Agricultural Machine Building]) are going to select, purchase, and repair it, and subsequently sell it, with its reliability guaranteed for a certain period of time.

Import deliveries, including those provided as special-purpose assistance, sales of used machinery at preferential prices, and so on, will play a perceptible role in meeting the needs of agriculture for equipment, primarily small-size equipment.

We believe that it is possible to avoid introducing a tax in kind in agriculture. The volume of republic and union stocks of foodstuffs will be reduced, and deliveries to them will be made on the basis of state orders placed in keeping with the general rules of the contract system. Restricted volumes, contract prices, tax relief, and the eventual counterdeliveries of products for material and technical uses will cause orders for agricultural products to become advantageous for all types of farms and will eliminate the pressure of administrative coercion. Sanctions for the failure to accept or fill a state order should be harsh (especially in the initial two years), but strictly economic. Under current circumstances, it is more expedient to place state orders at large and highly profitable farms of which a high share of marketable production is characteristic.

Agricultural enterprises will have a right to determine themselves the mode and volume of selling the output produced outside the framework of state orders. The system of centralized setting of procurement prices and

bonuses associated with them will be eliminated. Relations between farms and procurement and processing enterprises will be arranged on a contractual basis.

With a view to overcoming the monopoly position of enterprises processing agricultural products, the construction of small processing shops directly on the farms will be encouraged (including those using complete imported plants), as well as the associations of farms in rayons for buying out the fixed assets of the enterprises of the food industry and creating cooperatives, associations, and joint-stock companies for procuring, transporting, processing, and selling farm goods.

Proceeding from the needs of retail trade, procurement and processing enterprises and organizations will, based on their financial interests, determine themselves the regions, volumes, and assortment of procuring agricultural products. A network of agricultural commodity exchanges and data banks will be created; the number of farmers' markets in the cities will increase considerably. The development of trade and procurement operations in all forms will be encouraged.

The abandonment of assigning the volume and assortment of agricultural production in an administrative manner will make it possible to considerably enhance the specialization of farms within two to three years and reduce production costs; it will provide incentives for selective breeding and the regionalization of crops.

Disturbances developing in the period of transition due to changes in the structure of areas under crops and the specialization of farms will be eliminated by means of both a new price-setting arrangement and by state intervention in commodity [markets].

Local authorities organize work on the development of new infrastructure in the system of trade and provide incentives for the privatization and demonopolization of this sphere. Trade enterprises set retail prices on the basis of the total cost of production, processing, and sales of agricultural products, taking into account demand and supply. As early as October 1990, work will begin on privatizing the system of fruit and vegetable warehouses and storage facilities in the cities. Organizational monopolies in this sphere will be eliminated.

Arrangements for Subsidizing Agricultural Products and Their Extent

Subsidization will be shifted from the stage of procurement and processing of agricultural products to trade and will be entrusted virtually in its entirety to local budgets, together with the appropriate sources of revenue for covering the subsidies. Depending on the peculiarities of their regions, local soviets will determine independently the volume and forms of subsidy payments to trade enterprises. In the process, only the final product sold through the retail trade system will be subsidized. All subsidies which used to be provided at intermediate stages will be eliminated completely. To this end, a subsidization fund will be formed within local

budgets on the basis of redistributing state budgetary subsidies and local tax revenues. In 1991, the rendering of financial aid to the local organs of power from the republic budgets with a view to augmenting the subsidy fund will be possible. Among other things, the subsidization fund may be augmented by means of fines for unjustified price increases, unfair competition, and so on.

The arrangement proposed may be implemented in most regions of the Soviet Union. Moscow, Leningrad, Armenia, Azerbaijan, Georgia, and Turkmenia are the exceptions; the share of imported foodstuffs not covered by the budgetary subsidization arrangement in the structure of their consumption is high. This is why, pursuant to an agreement of all republics, hard-currency expenditures for the imports of foodstuffs for these consumers will be envisaged, and a fund of support for certain regions will be formed within the union foodstuffs fund.

Principles for the Accumulation and Volumes of the All-Union and Republic Stocks of Agricultural Products

The union stock of agricultural products will be reduced substantially, primarily due to the elimination of the state market stock and stocks for industrial processing, mixed feed, and fodder. The previously revised stocks for non-market consumption, export deliveries, and state reserves will be included in it. The total size of the union foodstuffs stock should not exceed 15 million tons of grain and 2 million tons of meat.

Procurement for the centralized state stocks will be carried out by the state system of contracting in keeping with general guidelines. The volume and composition of state orders for the delivery of products to the union consumption stocks will be determined at the union level as a result of an agreement among all republics and will subsequently be communicated to the contracting systems of republics. The full volume of state orders and the terms for placing them will be determined at this level, taking contracts and internal needs into account.

In the future, it will be possible to reduce the union stocks of foodstuffs to the size of their reserve segment by introducing locally procured supplies for the Armed Forces, the Ministry of Internal Affairs, the KGB, and other organizations through budgetary allocations given directly to these consumers.

During the period of transition, it is necessary to create in the republics small reserve stocks the functional significance of which will be similar to the union stocks. Depending on the situation, the republic stocks may be a vehicle for some of the intrarepublic interregional deliveries of foodstuffs and agricultural products. The union and republic stocks will be used for commodity intervention in the markets and for aid to individual regions facing a tense food-supply situation.

System of Measures for Stabilizing the Foodstuffs Market

In an environment of free price setting, it is possible that existing proportions of the level of foodstuffs consumption will be upset as a result of the failure of the interests of local trade and procurement organizations to coincide with those of the producers of agricultural products, which may bring about reduced volumes of sales and higher prices.

The agrarian policy implemented by the state will be aimed at stabilizing retail prices by means of:

- eliminating the monopolistic position of producers, processors, and trade enterprises; developing competition;
- savings made in the total cost of producing agricultural goods;
- growth of production and a sharp reduction in the losses of agricultural products;
- supporting a guaranteed minimum of consumption of the main foodstuffs at low state prices.

The monopoly position of procuring, processing, and trade enterprises will be overcome by means of privatizing them on a priority basis, encouraging trade and procurement cooperatives in every possible way, and developing the infrastructure of the foodstuffs market in an accelerated manner. A considerable segment of the pool of trucks (including military trucks) will be sold to citizen-owners; cooperatives for servicing these cars will be organized. Complete sets of equipment for small processing enterprises will be imported. A chain of storage facilities for agricultural products will be developed on the farms themselves. Several dozen proprietary farms using foreign technology and foreign specialists for personnel training will be organized in the vicinity of large cities. Aid with organizing agricultural production in all forms, through state and private channels, will be accepted.

Savings in the total cost of producing foodstuffs will be attained by means of eliminating one-time expenditures of the state budget for the construction of water-management facilities, erection of large animal-husbandry complexes and giant enterprises in the field of processing and storage of products. Purchasing foodstuffs directly from farmers and owners of personal auxiliary plots will make it possible to eliminate artificial differences in procurement prices for various categories of producers and reduce the overall level of prices. Direct financial interests of the owners of the means of production and products will bring about reducing losses sharply; the state organs will fight unfair competition, the creation of excessive commodity reserves, and so on.

An increase in the output of some types of agricultural products will occur as early as the first one to two years of the reform due to reinforcing the specialization of farms and taking advantage of opportunities for a better

organization of labor. However, it will be necessary to invest in selective breeding, develop new types of agricultural equipment, and reconstruct the processing industry with a view to the stable and long-term growth of the volume of production.

Imports of foodstuffs will continue to be an important factor of market stabilization during the period of transition.

Land Reform

A land reform will create conditions for various forms of efficient economic operations, eliminate the monopoly on land ownership, and introduce fees for the use of land. Specific forms, deadlines, and methods of transforming the relations of land ownership (including the issue of sales and private property of land) will be resolved by the sovereign republics, and the main organizational work on implementing the reform will be carried out by the local authorities.

On 1 October, the USSR president will proclaim the inalienable right of the people to own land and will confirm the powers of the local soviets to manage it. The lands of kolkhozes and sovkhozes will be declared to be a sum of the lots of their workers; a re-registration of the land will begin.

In 1990, the preparation of the legal, organizational, and economic foundations of the land reform will be completed. The land codes of the republics and legislative acts with direct effect will be adopted which will regulate procedures for collecting land taxes and rents, confiscating and allocating land, introducing land registers and monitoring, and conditions for buying and selling parcels of land. Local soviets will confirm corresponding documents on methods and norms. At the same time, obsolete legislative acts, instructions, and regulations which run counter to the foundations of the USSR and union republic land legislation will be canceled.

Republic Committees for the Land Reform with an extensive network of local offices will be set up. Clear-cut instructions will be prepared on the implementation of all measures of the land reform and the privatization of the fixed assets of agriculture, taking into account the peculiarities of individual regions. The land reform committees will be charged with land-survey, consulting, controlling, and arbitration functions with a view to implementing the land-reform legislation passed in the republics. Amendments will be made in civil and criminal law with a view to neutralizing the sabotage of this legislation in the field.

The re-registration will be carried out by the local soviets in cooperation with the Committees for the Land Reform, taking into account the actual use of land. The local soviets will allocate the parcels of land to be owned or used (including leases) to agricultural enterprises, and to citizens to be owned for life on an inheritable basis, or as their property.

The peasants will be given the right to a parcel of land. The land which belongs to personal auxiliary plots will be declared personal property of the peasant families or transferred to them for a small fee. In kolkhozes and sovkhozes, conditional privatization of land and fixed production assets will be held—the registration of contributions, shares, and so on, taking local conditions into account. The peasants who wish to farm together within a single large unit will form an unlimited cooperative or a limited cooperative, team, or enterprise. The same procedure will apply to state farms and inter-farm agricultural enterprises. The new entities will be registered by the soviet after the signing of pertinent charters and contracts.

The right of kolkhoz workers to freely leave a kolkhoz, with a land parcel and a share of the assets accumulated in kind or in the form of dividend-bearing securities becoming their property, will be codified in legislation. Procedures for recalculations and arrangements for leaving a farm will be regulated by a kolhoz charter and agreement.

Arrangements for the allocation of a land parcel may provide for a citizen filing an application with rural (settlement) soviets of people's deputies indicating the purpose of using the parcel, its size, and preferably its location. If this parcel of land is not on the land used by kolkhozes, sovkhozes, and other agricultural enterprises, or in the event of their consent to providing the land, a decision on this will be made after a review by the proper commission of deputies of the rayon soviet of people's deputies.

In the event an agreement is not reached between a farm and a worker leaving it regarding a specific parcel of land for organizing a peasant farm, an arbitration commission will be appointed which will consist of representatives of the commission of deputies of a soviet of people's deputies, the rural (settlement) soviet, this farm, and the Committee for the Land Reform.

A recommendation of the arbitration commission will provide the basis for the adoption of a final decision by the rayon soviet of people's deputies, which, however, may be appealed to the courts if, in the opinion of one of the parties, a violation of law has been allowed to occur.

Other citizens who are not workers of a given enterprise will be given land parcels for operating peasant farms on reserve lands by the rayon soviets of people's deputies. In the process, a period of probation (up to three years) may be established during which the land will be used under leasing terms with the subsequent transfer of it to the ownership [of the user].

Reserve lands for setting up peasant farms and small cooperatives on them will be replenished with the appropriated lands of unprofitable farms and those with slim profit margins which are incapable of ensuring their efficient use. At present, there are about 6 million hectares of unused land in the Non-Chernozem Zone alone.

Land-survey plans will have to be developed on the basis of locating this land which will envisage measures for registering the land holdings of peasant farms, as well as kolkhozes, sovkhozes, forestry units, and other land users.

The transformation of kolkhozes and sovkhozes into cooperatives of peasant farms—naturally, pursuant to the decisions of their labor collectives—will occur differently in different republics. This may be done in stages. At the first stage, a system for profit-sharing by kolkhoz members and sovkhoz workers will be developed and implemented, and a system of lease relations and other forms of agricultural production will be encouraged. At the second stage, kolkhozes or sovkhozes will be transformed into cooperatives which unite producers and perform the function of providing comprehensive services to them.

Programs for supporting market-oriented peasant farmsteads of a proprietary type will be implemented in the republics.

According to preliminary estimates, we may be looking at the creation of between 150,000 and 180,000 peasant farms in the next few years, taking the resource potential into account. The process of their organization will proceed more vigorously in the Non-Chernozem Zone, in individual areas of Siberia, the Baltic republics, mountainous and foothill areas of Transcaucasia, and in the west of the Ukrainian SSR [Soviet Socialist Republic]. According to predictions, they will specialize in producing milk and cattle meat, sheep and hog breeding, as well as individual sectors of crop production, primarily, the production of potatoes, vegetables on open or covered soil, fruits, and in a number of zones, in the production of grains, industrial crops, and ecologically pure products.

According to approximate estimates, the investment necessary for the creation of the predicted number of peasant farms will amount to between 13 and 30 billion rubles (between 150,000 and 200,000 per farm). State funding, loans, and monetary savings of the populace will be the sources of financing.

According to preliminary estimates, the overall size of the land resources taken up by peasant farms will amount to between 15 and 18 million hectares, the average size of peasant farms being about 100 hectares.

Beginning in 1990, Land Banks will be set up in the republics the statutory capital of which is formed with budgetary funds (the banks may be set up using the branches of the Agroprombank [Agroindustrial Bank]). The functions of the land banks will include the provision of long-range and short-term loans, acquisition of land to be owned, mortgage loans, placement and purchasing of shares, partial contributions to cooperatives, and so on. The banks should operate on a strictly commercial basis in cooperation with state organs. The

banks should implement the policy of the state in the course of obtaining special-purpose subsidies and securing tax relief.

Fees paid for land will be the most effective vehicle for the land reform. The preliminary cost of land will be calculated conventionally in the course of taking a census of land resources; a land tax will be introduced which will encourage the efficient use of land.

The determination of the most effective forms of economic operations and the release of land and other agricultural assets will occur in the course of bankruptcy and liquidation of unprofitable kolkhozes and sovkhozes. As of 1 January 1990, one farm in six was determined to be in the category of economically weak farms; 65 percent of short-term loans have no material collateral; the shortage of proprietary circulating capital came to 38.4 billion rubles. Taking into account the fact that loans account for 70 percent of the financing of kolkhozes and sovkhozes, the growth of interest rates to between six and eight percent as early as 1 January 1991 may bring about the bankruptcy of up to 25 percent of the farms which occupy about 30 percent of the farmland.

Bankruptcy arrangements will provide for declaring insolvency, taking stock of production assets, and taking open bids—an auction. The unsold production assets will be preserved and transferred to the assets of the land bank-creditor of the farms liquidated at their residual cost.

With the participation of the local soviet, the bank will announce a competition-auction for acquiring or leasing the agricultural land vacated. The populace residing on a given territory will be given the preferential right to acquire the land. Upon reviewing the documentation filed, the bank may provide loans and preferential credit for acquiring (leasing) the land, fixed assets, and working capital.

The new owner of the land will use his own and borrowed funds to acquire or lease machinery, construction materials, fertilizer, and so on, and will sign contracts for the sale of the future crop.

The local soviets will be deprived of the right to hold and manage land, except for the land of the state reserve, after the main measures of the reform are implemented. They will retain the functions of monitoring land use, signing transactions involving land, and other functions codified in the legislation.

Gardening plots of up to 0.06 hectare will be given to the urban population as their personal property for a small fee within the framework of the land reform and by virtue of the decisions of the local organs of power. The guidelines for land allocation to gardening associations will change. They may be given the developed lands of unprofitable farms within 30 to 50 kilometers from city limits. This will make it possible to secure rapid returns in terms of the production of potatoes, vegetables, fruits,

and berries for their own consumption and for sale. This measure is viewed as a component of the social program of the state; this will make it possible to alleviate the hardship of the period of transition for millions of families. In turn, the acquisition of large tracts of land by citizens and their resettlement with a view to creating peasant farms will be regulated by the local soviets in keeping with the land law.

The pace of conducting the land reform and the specific forms of its implementation will be chosen taking into account specific local conditions, and will differ considerably in various regions of the union.

New Arrangements for Implementing the Program of Socioeconomic Aid to Rural Areas

Assistance to rural areas should be viewed as the most significant, effective device for indirectly controlling the efficiency of the agroindustrial complex. However, the object and forms of assistance will change decisively.

It will no longer be possible to provide assistance free of charge, in the form of subsidies and budget donations; it will be necessary to abandon the practice of periodically writing off the debt of farms to the banks.

Assistance should be for a fee only, and it will be allocated to farms of which a corresponding increase in the efficiency of production is expected.

Some of the funds released in the course of reducing centralized investment in land reclamation and the construction of animal-husbandry complexes, large plants, and storage facilities will be used to finance special-purpose programs for developing the social and production infrastructure of rural areas. The investment programs will be financed through the land banks from the funds of the union, republic, and local budgets, associations of producers, and farms themselves.

In the next few years, the republics may introduce the most-favored economic treatment of peasant farms, in particular:

- introduce preferential tax rates for peasant farms in the period of their emergence; exempt from taxes the segment of the profit of peasant farms earmarked for developing production;
- facilitate the creation of a special system of small loan establishments in rural areas on a commercial and cooperative basis, establish preferential procedures for the provision of loans to peasant farms in the period of their emergence by state banking establishments; grant preferences to commercial loan establishments serving peasant farms;
- develop programs for the budgetary financing of the infrastructural support of regions in which the organization of peasant farms becomes massive.

Special-purpose investment will be made in developing the construction facilities of regions, creating new types of farm machinery, and road construction.

With a view to attracting foreign partners for participating in the creation of peasant farms, it is necessary to develop a set of measures aimed at boosting the interest of foreign companies and entrepreneurs in investing their own capital in production-oriented construction, technical, technology, agricultural, and social services, delivery of high-quality seeds, machinery, fertilizer, and insecticides, as well as in creating a system for personnel training and retraining.

6. Housing Reform

A housing reform is one of the key aspects of a transition to a market economy. Its objective is to create a housing market which will make it possible to exercise the right of every family and every member of our society who is of full age to elect a mode of improving housing conditions which is the most acceptable to them.

Under the conditions, the market will operate as a flexible instrument which will provide an opportunity for all groups of the population to improve their housing conditions and stimulate not only the construction of new housing but also improvements in the existing stock.

The transition to a market is also compelled by the tremendous extent of unsatisfied effective demand for housing. According to the available estimates, it comes to between 70 and 75 billion rubles. Out of this, those on waiting lists for cooperative housing account for 7 billion rubles, and those who are not on the waiting lists but would like to acquire cooperative housing account for another 12 billion rubles. The funds which [the populace] would like to allocate for individual construction right away amount to more than 25 billion rubles (without loans). Demand for repairs and improvements in the individual housing stock comes to another 3.5 billion. Finally, those who live in the state housing stock are prepared to pay additionally more than 25 billion rubles for improving their housing conditions.

It is impermissible to ignore this tremendous effective demand. At present, up to 50 percent of demand for housing is switched to other goods, thus making a balance in the consumer market substantially more difficult to achieve.

The following main principles of the housing reform are proposed

- 1) The right of all citizens and families to acquire and hold housing as their personal property, sell it, and bequeath it without any restrictions;
- 2) The right of citizens and families to freely elect a mode of meeting their demand for housing: their own house or apartment, joint ownership in a cooperative, rental housing;

3) Fees paid for housing in keeping with its full market value, taking into account its quality and location;

4) Social guarantees to low-income families in the process of exercising their right to housing by way of providing them with free and reduced-rent housing in the municipal (state) housing stock;

5) Acknowledging the right of individuals on waiting lists to preferential conditions for the allocation of housing.

The housing reform will be highly significant from the social point of view. It should turn a majority of the citizens of our country into the owners of dwellings, provide greater incentives for saving, investment, and motivation for labor.

At the same time, the task of maintaining balanced budgets will be made easier. The state will cease to spend considerable funds, unsoundly for the most part, for housing construction and the maintenance of the housing stock. In the next few years, these expenditures were to rise substantially yet again in conjunction with prospects for expanding housing construction. The funds which are now withheld from payments to the populace in order to later provide for it the seemingly free apartments through distributive arrangements and waiting lists will be retained by the citizens and will be freely spent in keeping with their preferences.

Most enterprises will also stop funding considerable and extremely unevenly distributed social expenditures previously entailed by housing construction and covering the losses of housing and communal management.

It is proposed to implement the housing reform in stages in 1990 through 1992.

At the first stage (October 1990—March 1991), the legal foundation and socioeconomic infrastructure of the housing market will be created. The transfer of certain categories of state housing to the citizens as their property for a symbolic payment will begin in the process of selling this housing.

At the second stage (through the end of 1991), some of the newly built apartments will be sold at full cost or on credit; the system of loans for housing construction will be reorganized. New procedures for the allocation of housing to individuals on the waiting lists and low-income families will be established. The next stage of the reform will be prepared.

At the third stage (end of 1991—1992), the payment of fees for housing based on its full market cost will be introduced, with the expenditures of the populace being compensated through the adopted system of indexation. Extensive privatization of the state housing stock will get under way. The housing stock of ministries, as well as that of enterprises, will be transferred or sold to the local soviets, renters, or specialized commercial companies to be held as their property.

The main work on implementing the housing reform will be done by the local soviets. The republic and central organs provide a legal foundation and financial support for the measures carried out.

The creation of a legal foundation and the socioeconomic infrastructure of the housing market presupposes:

- the development and adoption of legal acts which ensure the unhindered purchasing, selling, renting out, or renting at contract prices of the housing fund which constitutes the personal property of citizens;

- the creation of conditions for the development of commercial companies for purchasing, producing, and selling housing, and renting it; subdivisions in charge of acquiring and selling to the citizens the market housing stock will be created within the structure of the executive committees of the soviets; Regulations on Procedures for Purchasing and Renting Housing From the Local Soviets will be prepared;

- the formation of a system of specialized housing loans; the creation of a mechanism within the banking system which would provide additional credit preferences for young and low-income families, and those with many children;

- the development and adoption of legal acts on reorganizing the property of housing cooperatives along two main avenues:

- a) transforming the existing housing construction cooperatives into associations for the joint operation of multi-family buildings in the course of transferring apartments;

- b) creating new cooperatives either as strictly construction-oriented ones with the subsequent personal ownership of apartments or with the cooperative form of ownership preserved if contributors (purchasers) so desire.

Transferring certain categories of the state housing stock to renters as owners free of charge or selling them for a symbolic fee will become the first step in privatizing the housing stock.

The renters may be given some of the housing stock free of charge in keeping with the norms set by the local soviets, with the remaining segment of housing above the norm being paid for. The sale of housing for a symbolic fee is possible. Such sales of housing with seven percent of the due tax on the residual value of the apartment, or at 10 rubles per square meter, may eventually raise 10 to 20 percent billion rubles [as published]. Per family, it will amount to between 500 and 600 rubles for apartments the market value of which ranges between 10,000 and 30,000 rubles. The transfer of housing to owners will trigger mass exchanges, that is, buying and selling the housing, now personally owned, with a quite official payment of the difference in housing prices by those who improve their housing conditions.

The local soviets may establish deadlines for the transfer or symbolic sale (for example, before 1 July or 1 December 1991). In the future, buying out apartments will only be possible at market cost.

The rapid intensification of exchanges will occur due to the commercial nature of changing dwellings becoming legal, which will bring about not only the improved distribution of housing; other significant results will follow: reduced demand for new apartments, striving to ensure better repair of the housing stock, less pressure on public transportation (due to a more advantageous distribution of the populace over the territory of cities), and higher mobility of the population.

Changing the system of current payments for apartments in the houses of the state and public housing stock in keeping with the rules set forth by the republics is a necessary condition for intensifying the process of transferring and buying out apartments as personal property. In the process, the following may be the guiding principles:

- to introduce increased payments for excessive floor space effective 1 October 1990;
- to establish in 1991 differentiated levels of rent for citizens residing in separate apartments depending on the size of the overall useful space occupied, the quality and location of housing, but no lower than the costs of operation;
- to envisage an opportunity for reduced rents to be paid by families which live in communal apartments, on premises which do not meet requirements for apartments, and payments for residence in dormitories, as well as payments for apartments by families with per capita incomes of under 80 rubles who do not have the [minimal] social norm of floor space;
- to abolish the normative acts adopted which give the right to additional floor space and rent reductions to the employees of state offices and enterprises, professional, party, and other public organizations, military command personnel, as well as reduced rental payments for members of the boards of attorneys and physicians practicing at home;
- to develop and implement in 1990 regulations on the leasing of housing in the non-state housing stock which provides for setting rents by agreement, with the right of the local soviets to place an upper limit on these payments.

Simultaneously with raising rents and rental fees, it is necessary to provide for indexing the incomes of the population, including a revision of the minimal wage, and indexing retirement benefits, grants, and scholarships.

It is necessary to resolve the issues of the accumulated obligations of the state, i.e., of individuals on the waiting lists, as well as to change the principles and forms of the

free provision of housing. To this end, the following solutions are offered to the local soviets:

- all individuals on the waiting lists are given the right to either remain on the list or be removed from it with a conditional monetary compensation (for purchasing a dwelling in the market) from the funds of the local soviet; its amount should depend on the duration of being on the waiting list;
- the system of free provision of housing will be changed with a view to using for this purpose inexpensive municipal housing allocated in keeping with stringent residential-space norms;
- the republics may change criteria for qualifying for the waiting lists themselves: the level of per capita income, availability of residential space, or income and availability combined;
- the least protected groups of the population (retirees, the handicapped, and the sick) enjoy priority in the allocation of municipal housing;

The individuals currently on the waiting lists may be treated as people who pay installments for the apartment received. (One-thirtieth or one-twenty fifth of the cost of an apartment will be paid for every year of being on the waiting list). The number of years on the list will determine the sum of compensation. However, the latter will not be issued to the individual but will be taken into account by the soviet when an individual on the waiting list will be allocated housing. It is expedient to set up special Housing Banks or funds for issuing such credit. Resources for them may be secured by allocating some of new housing construction, including single-family houses, for unrestricted sales at market prices, initially without credit, and subsequently on credit. Profits from the sales and purchasing operations may be earmarked for giving credit to the individuals on the waiting list, as well as for building or buying inexpensive municipal housing.

The acquisition of all new housing for a fee is an important principle of the housing reform. It is proposed to introduce this principle gradually, taking into account the social complexity of its implementation under the conditions of our country.

As early as 1991, some of the newly built apartments and houses may be sold at full cost. A system of providing loans for the acquisition of housing should be put in place, including that of the local soviets. As a rule, it is necessary to provide loans at a low interest rate and with a small downpayment. Calculations indicate that the sale of 1 million apartments, that is, one-third of the amount now commissioned, may yield 32 to 33 billion rubles in current prices. Therefore, the sale of approximately 100,000 state apartments in 1991 could generate about 3 billion rubles.

In 1991, the transfer of the housing stock of ministries, together with maintenance services and their material facilities, to the local soviets will begin.

Some of the stock will be transferred or sold to renters, housing associations and cooperatives, as well as to specialized commercial companies.

The successful development of the housing market is only possible on the basis of a sharp increase in the volume of housing construction. To this end, it is necessary to develop special republic and all-union programs which create conditions for:

- the extensive reallocation of investment resources to housing construction and repairs of the existing stock due a sharp reduction in the amount of production facilities built, restrictions on investment demand by material production sectors, and a transfer of the released construction capacity to housing construction;
- the demonopolization of the construction complex; restructuring the economic mechanism of construction, including the transformation of state construction organizations into joint-stock enterprises, leased enterprises, and creating construction cooperatives and non-profit construction companies of the local soviets.

7. The Nonmarket Sector

When changing over to a market economy it is important to support and consolidate the nonmarket sector, that is, those branches and kinds of activity which in principle cannot be oriented toward commercial criteria but whose existence and performance are vitally important to the society. The nonmarket sector occupies an eminent place in the economy of any developed country and its condition largely characterizes the level of the country's development and the degree of its civilization. The nonmarket sector includes: health and education, culture and art, protection of nature, and so forth.

The main line of communication between the market and nonmarket sectors is the fact that, relying on economic stimuli, the market sector, which encompasses the production of products and paid services, increases the social wealth. The greater it is, the greater the amount of the share that can be allotted for the development of the nonmarket sector. The latter, in turn, influences not only the social and moral aspects of the life of the society but also production. But this influence is long-term, it is not direct, and it is not affected by the usual changes and monetary evaluations.

In the final analysis it turns out that inadequate development of the nonmarket sector has a depressing effect on the entire economy.

At the present time, the problem is that when changing over to a market economy under the conditions of a rigid financial policy, the branches of the nonmarket sector

could end up in jeopardy, even though the majority of them are in a critical condition anyway. Taking this into account, it is necessary to have a clear-cut policy with respect to them:

1. Refusal to lower the level of state support for branches of the nonmarket sector. Funds for financing them are allotted taking into account possible price increases (indexation of budget allocations) or in fixed proportions of the sum of budget revenues.
2. Maximum mobilization of nonstate, public funds for maintenance and development of institutions of the nonmarket sector.
3. Commercialization of some of the activity of these branches, which can thus be changed over to a market economy without detriment to the society; clear legislative delimitation of the status of commercial and non-commercial organizations.
4. Organizational and economic restructuring of the activity of institutions of the nonmarket sector in order to provide for more effective utilization of the resources allotted to them.

In the area of **public health** there must be consistent adherence to the principle of universal availability of therapeutic and prophylactic aid and the development of a network of free state medical institutions that take responsibility above all for satisfying the essential needs of the population, that is, nonelastic demand, with respect to which consumer choice is either impossible or is reduced to a minimum.

With respect to other medical services the population must have the opportunity to select various means of applying for them through noncommercial institutions or commercial enterprises of a medical profile which will offer better-quality services for pay and engage in all kinds of "medicine for healthy people" and also service for those who need no treatment but general care.

The development of services for social assistance, which would be concerned about caring for people who are incapable of taking care of themselves, is one of the most crucial tasks both of public health and of the local authorities and the broad public.

State financing of public health will be provided both in the form of direct allocations for maintaining medical institutions and in the form of payment of patients' accounts at established rates, which will enable them to select the institution (paid or nonpaid) whose services they prefer to take advantage of, taking into account the amounts of the compensated part of the expenses.

Another important form should be medical insurance, which presupposes financing expenditures on treatment, prevention, and care from special insurance funds formed from budget allocations and contributions of enterprises and citizens. Insurance funds can be an influential protector of the rights of workers in cases where someone is to blame for the harm to their health

(harmful productions, inadequate safety techniques) by making the guilty parties pay for the expenses of restoring the health of those who have suffered. They can also be economic controllers of expenditures on public health and the quality and level of payment for medical services.

In the area of **science** the state finances basic research and also, in conjunction with interested parties, long-range developments that are capable of revolutionizing technology in important sectors of the national economy.

At the same time the state should change its attitude toward science, which must be released from all forms of bureaucratic control. The academies of sciences of the USSR and the union republics, as well as the branch academies, will be released from administrative functions and be transformed into social organizations controlled by a community of scholars in keeping with democratic principles, in circumstances of complete openness and public discussion of the proposals and drafts submitted to apply for financing, ruling out monopoly of any individual scientific school.

Institutes and other scientific institutions are taken out from under the jurisdiction of the academies. Complete independence is granted to VUZ's [higher educational institutions] and universities with abolition of control of them by the State Committee for Education. In their totality they form free organizations which combine scientific research and training of personnel with the highest qualifications and which are capable of enlisting all of the country's intellectual potential.

The majority of applied research and development is conducted on a commercial basis or is financed by enterprises. A market of scientific and technical products is formed and there is a reorganization of the structure of institutions engaged in scientific research and experimental design work, with their being broken down in order to eliminate monopolies of head institutions and develop entrepreneurship and competition. The creation of small scientific and engineering firms with financial support from innovation and risk funds is encouraged.

In the area of **education** the state will provide for the financing of a network of institutions for secondary and specialized secondary education and also vocational and technical training and retraining of personnel and higher educational institutions. But it will be necessary to restructure the organization of the work of the latter in such a way as to motivate both the teachers and students to sharply improve the quality of their work. Local organs will have the opportunity to introduce special taxes on the population for educational needs. It is also necessary to encourage the enlistment of funds from enterprises.

An important role in the development of all stages of education should be played by decentralization and

democratization of administration and extensive application of public principles. The independence of educational institutions will increase, including in the determination of the content of the program of study, selection of personnel, and regulation of the composition of the students.

Questions about which management organs should be created in the local areas, their functions and staffs, the boundaries and composition of the school districts, the creation of methodological centers, and the distribution of allocations for education should be decided by the local soviets with the participation of the community.

A most important task for improving the education system is to create favorable conditions for showing initiative and freedom to realize the creative potential of people who have mastered the methods and art of study as well as the opening up of possibilities of competition in this sphere.

In order to carry out this task, it is necessary, in addition to free state institutions, to expand the network of educational institutions of a commercial type and paid institutions that grant the possibility of acquiring education and occupational training at an especially high qualitative level.

Additionally, it is possible to have commercial educational institutions that are not dependent on the state and are financed by enterprises and social funds and also those which receive funds for performing research projects and developments.

At the same time world experience shows that the main burden of expenditures on education should be born by the state. At the same time, in order to achieve high standards of education and professional training and concentration of forces and funds for these purposes, it is also necessary to have union programs and centers that are financed from the union budget. According to estimates of specialists, the share of the union budget in the overall state expenditures on education should be 8-10 percent.

For purposes of increasing the motivation of students in the higher school to have high-quality occupational training and improve their material support, it is necessary, in addition to paying stipends, to expand the practice of granting long-term loans for the time of study to be repaid after the study is completed.

At the same time measures in the area of education will not be conducted according to the principle "everything all at once and everywhere." How radical and deep the transformations are and how rapidly they are carried out in each unit should be combined with circumspection and moderation in the selection and preparation of each object. Again, in this sphere we are not relying on a unified program and action on command but on the initiative and enterprise of a large number of people and the removal of all kinds of regulations that restrict them.

In the area of **culture and art** we shall follow a policy of support for the preservation and restoration of our cultural and historical heritage, aesthetic education, creative research, and the development of the cultural independence of the population. The development of market relations entails certain dangers for this sphere which are linked to the drive for commercial success to the detriment of things that are more socially significant but whose results are not in widespread demand. With an imperfect market, inadequate financing of culture by the state, and an undeveloped system of patronage, there is a crucial problem of deterioration of the quality of culture and a narrowing of the range of kinds of activity that correspond to public interests.

Therefore, in a situation of rapid transition to the market, the role of economic support from the society and the state for socially important kinds of activity in the sphere of culture and art increases sharply.

The following are necessary as immediate measures:

1. To develop and adopt a program of immediate measures for preservation of national cultures, centers, objects, and organizations of culture of national significance, to provide for maintaining the work of libraries and museums at the proper level, and to allot additional resources for this. The branch budget becomes the main indicator of the real attitude of the society and the legislative power toward the preservation of culture.

2. To encourage in all ways the expenditure of funds on culture from non-budget sources. There must be tax breaks for patrons: enterprises, organizations, and citizens who turn over funds for the development of the social and cultural sphere. There must be a social atmosphere and system of moral incentives that encourage patronage of the arts and sciences. We must support in all ways the creation of all temporary financial funds for the support of cultural activity.

At the same time there must be significant organizational and economic transformations in the sphere of culture itself.

We must radically restructure the system of state financing of the development of the sphere of culture. This means rejection of the practice of financing the very existence of state cultural institutions without respect to the direction or nature of their activity or whether or not they are responding to real needs. Funds allotted by the state for the development of culture must be concentrated in special-purpose centralized and regional funds and be allotted for the implementation of concrete programs and projects on a competitive basis.

Both state and social funds for the development of culture should be formed. The budget is still the most important source of these funds. The adoption of decisions concerning concrete areas for their expenditure should be turned over to the councils of funds which will be formed from people who are active in culture and representatives of the community. When forming the

special-purpose funds it is necessary to a certain degree to provide for their duplication and transfers so as to reduce subjectivism in the decisions that are made.

In the sphere of culture as throughout the socio-cultural complex, it is expedient to have two types of organizations which are fundamentally different in terms of their status and the conditions for their management: commercial (autonomously financed) and noncommercial. The former will work under market conditions and receive funds, including possible budget allocations, in exchange for the concrete results of their work. The latter will work within certain parameters of the very process of their activity. The possibility that these funds might exceed their expenditures must not serve as a source for increasing the wages of their workers or the incomes of their holders. The public principle in the management of noncommercial organizations should be represented, above all, by organs of the type of councils of trustees. This model makes it possible, with adequate pay, to provide for carrying out many socially significant kinds of activity. A special law on noncommercial organizations is needed in order to introduce it.

In the area of the protection of nature and ecological safety our country is faced with especially difficult and urgent tasks.

During the process of the country's long-term development we have lost one of its main constituent parts—maintenance of the natural and ecological balance of the national economy.

As a result the health of the population was undermined. Even today almost every fourth USSR citizen is chronically ill, including, as a minimum, every sixth child. The ecological overloading caused by the serious background condition of the environment (in dwelling, work, and recreation places) and the poor ecological quality of the microstructure of the life activity of the population (food products, drinking water, housing, technology, and so forth) undermine efforts directed toward improving public well-being and the social reorientation of the economy.

Ecological restrictions on the development of productive forces have become one of the main impeding factors in the growth of the scale and effectiveness of the economy. This is manifested above all in the shutdown of harmful production facilities and the bans on the introduction of new and the reconstruction of existing enterprises in crowded industrial centers, in the majority of which the ecological loads have already exceeded the norms. These bans make it necessary to introduce additional capacities in new regions that do not have infrastructures and have unstable natural systems and increased proportional expenditures on all kinds of work.

The unregulated process of shutting down ecologically dangerous enterprises causes a chain reaction of increasing the imbalance of the economy. The potential scale is determined here by the violations of the ecological norms which are to be found almost everywhere. In

1989, the work of more than 1,000 large enterprises and production facilities was halted because of ecological factors. At the same time, being armed merely with purely administrative resistance to these processes only aggravates the confrontation between the center, the enterprises, the local management organs, and the population, and it increases the politicization of the ecological movement.

There is a growing number of large-scale accidents in production with the most dangerous massive discharges of pollutants. The amounts of the possible economic damage are shown by the expenditures on cleanup after the Chernobyl disaster, which will reach R25 billion by 1991.

The current sizes of the ecological disaster zones and the need for compensation for losses from natural disasters (the seriousness of which is conditioned to a certain degree by the inadequate accounting for natural and ecological restrictions) create a real threat of switching the released economic resources from solving strategic problems of forming the new structure of the economy to maintaining the current potential. Stabilizing the situation in the Ural and Caspian areas alone, according to available estimates, will require R16.5 billion in capital investments in the next five years.

These negative natural and ecological tendencies will have to be overcome regardless of where our socioeconomic course may take us.

The key to the formation of the long-range natural-ecological policy is the recognition of how critical the current situation is as a result of the structural deformations of the national economy that have accumulated over the decades: the predominance of nature-intensive branches, the excessively high proportion of resource-intensive, obsolete technologies, the raw-material orientation of exports, the absence of human values among the real priorities of the socioeconomic policy, and the loss of the art of labor and consumption.

A radical improvement of the ecological situation in the country can be achieved only as a result of successfully carrying out the restructuring the national economy that is earmarked by the economic reform and only to the extent that progress is made in solving other basic socioeconomic problems. This will require a wholesale renewal of the production apparatus, improvement of foreign economic ties, and the transformation of direct expenditures on ecological needs into one of the main constituent parts of the load on the economy. Just the direct capital investments in protection of the environment and improvement of the use of natural resources necessary for achieving the minimum modern standards by 2005-2010 are estimated at R260-340 billion, that is, they are comparable to the expenditures on any other basic target social programs.

Taking into account the limited nature of available resources, in addition to strategic goals, the natural-ecological policy for the near future is determined by the

need for operational solutions to the most crucial problems that today are blocking the solutions to other urgent socioeconomic problems.

The high resource-intensiveness of a radical solution to natural-ecological problems, our lack of preparedness for large-scale development of large programs, and the boosting of economic restrictions in combination with the real possibility of ecological blocking of a number of the most important areas of national economic development make it necessary to develop a special package of natural-ecological measures for the immediate, essentially transitional, period.

The unique feature of this package is the restriction of the range of problems encompassed by it to two main ones: maintenance of the minimum level of ecological safety and the creation of prior bases for a consistent transition to the implementation of full-scale natural-ecological programs.

The first area includes, above all, the implementation of target programs that unite the efforts of the center and the republics for normalization of the situation in the nationally significant ecological disaster zones. The composition, status, and conditions for financing and resource provision for these zones should be legislatively established before the end of 1990.

We shall have to immediately develop and implement a complex of measures directed toward a radical improvement of the ecological reliability and accident-free operation of economic facilities. The priority nature of this task is determined by the high probability for further increase in the number of accidents, in the first place because of the expected aging of the assets and, in the second place, as a result of the greater disruptions in the continuity of production.

At the present time, the compensation for damage from accidents and natural disasters is paid by the state, which leads to a practically complete lack of economic responsibility of the guilty parties. It is possible to eliminate this by introducing mandatory accident insurance funds at the enterprises. Their amounts should be determined from the results of special inventories that estimate the real—taking into account the actual condition of the fixed production capital—and not the projected ecological danger of various classes of accidents and also natural disasters and the corresponding estimate of the expenditures necessary for compensating for potential harm. The frequency of such inventories with a reassessment of the accident-insurance funds of the enterprises will stimulate their reduction to the level of the accident danger, making it possible to put the money from these funds back into circulation.

With the deductions from the accident insurance funds of the enterprises and also from state, republic, and local budgets it is necessary to create analogous regional and union funds. The main areas for the expenditure of these funds are compensation for damages and restoration work on a scale that is beyond the capabilities of the

enterprises; organization and maintenance of anti-accident services and reserves, communications systems; target scientific research work; and providing credit for measures that increase ecological safety.

It is necessary to adopt additional measures for maintaining today's actually minimum scale of direct nature-protection activity and preserving at least the existing technical and organizational-economic potential in this area. In 1989 as compared to the average indicators for 1986-1988 the decline of newly introduced capacities was: for water purification facilities—16 percent; for recycled water supply systems—34 percent; and for installations for purification of waste gases—38 percent. One of the paths to a solution is to increase the proportion of nature-protection measures covered by the state order and tax breaks. The same benefits must be extended to products and services that are used directly for conducting nature-protection measures. These measures are more effective than the return to direct norm setting for financial funds allotted for ecological needs and the limiting of the consumption of natural resources which is becoming widespread today.

It is necessary to accelerate the prolonged process of reorganizing organs for managing and monitoring the condition of natural resources and the environment.

Effective approaches to problems of the most ecology-intensive products and the sharp social conflicts that are more and more frequently arising around them can be found only on the basis of the formation of compromise mechanisms for resolving them without force. An immediate measure here is the establishment, with the agreement of interested parties and local soviets, of the time periods for the shutdown of the most dangerous facilities, their reconstruction or provision with additional purification capacities (determined taking into account the real time needed to create compensating jobs, to introduce new capacities, and so forth), and the development of the necessary guarantees of the fulfillment of agreements and their approval by the proper authorities.

The same goal is pursued by the introduction—in exchange for refraining from immediate elimination of "dirty" productions—of direct ecological benefits for people living in unfavorable regions and also on territories earmarked for the introduction of large ecology-intensive facilities (including priority provision of non-ethyl gasoline and other "clean" products, advantages in the supply of products produced on the basis of ecology-intensive productions, and so forth).

As concerns the prolonged conflicts concerning the most ecology-intensive or ecologically dangerous facilities, which apparently cannot be avoided in the near future, special laws must be adopted which determine the forms for the resolution of these conflicts (analogous to the legal norms for regulating strikes).

Measures in the latter, reserve area are oriented toward increasing the expedient implementation of the most effective solutions, the creation of a material base for the

production of the necessary volumes of high-quality purification and monitoring-measuring equipment, and the formation of economic-organizational mechanisms which organically include ecological goals among the main priorities of the regulated market economy.

A primary condition for the solution to all the aforementioned problems is forced development of a network for monitoring the condition of the environment. One of the key measures here is the transfer of the means and functions of the general client for the development and production of the corresponding instrument base at reprofiled defense industry enterprises to organs of the State Committee for Protection of Nature. It will be necessary to sharply expand the output of the simplest individual means of ecological control and the selection of these products, and the distribution channels should be determined with the active participation of environmental protection movements.

Providing for the necessary doubling and redoubling of the growth of volumes and improvement of the quality of purification and monitoring-measurement equipment requires the formation of a special ecological avenue of conversion of the defense industry which should be legislatively established on the list of priorities. This avenue is also promising for defense industry enterprises since it will enable them to retain their science-intensive orientation and avoid a sharp drop in such indicators as capital-output ratio, labor productivity, and so forth.

Under market conditions, a most important role should be played by the establishment by local soviets of quotas for environmental pollution (at the minimum feasible level of discharges from existing enterprises) and payments for discharges for which there are quotas, which are initially small (taking into account the financial capabilities of the enterprises) but will grow sharply from the level of actual damage until the moment of the established deadlines for eliminating ecology-intensive facilities. There should also be fines for above-normative discharges in the amount of the full sum of the incomes obtained at the price of violating the established quotas. We should try the practice which has been adopted abroad of sale by the regional authorities of "pollution rights" which will subsequently be circulated for pay among the other enterprises of the region.

On the basis of the aforementioned payments and fines a multilevel system of ecology funds should be established with strictly determined use of the funds and a competitive basis for the selection of projects to be carried out.

In order to radically improve the use of nature we need immediate measures for preparing and introducing payments (taxes) for the use of natural resources—land, nonrenewable natural resources—and we must raise the payments for water and timber exploitation to the economically justified levels. We must resolutely accelerate resource-evaluation work and as early as 1990 prepare practical proposals for restructuring economic relations in the organization of administration in this sphere.

The legislatively established share of the tax on nonrenewable natural resources should go into the local budgets. This will stimulate their activity for evaluating natural resources and creating organizational mechanisms for calculating and collecting the tax.

Bans on the introduction of new and expansion of existing capacities in regions with an unfavorable ecological situation should be replaced by legislative reinforcement of the obligation to include in programs for new construction and reconstruction of existing enterprises special packages of ecological measures that provide for a reduction of the total pollution of the environment within the region.

We must immediately introduce declarations of the maximum ecological and ergonomic parameters of products and designs (including imported ones) and stipulate stiff economic sanctions for exceeding the declared indicators in practice.

On the whole, direct capital investments in protection of the environment and efficient utilization of nature during 1991-1995 can be estimated to range from R15 billion (which actually means maintaining their existing scale and has at least minimal material and technical support) to R45-48 billion. The feasibility of the latter estimate, which is based on the urgency of a radical improvement of the natural and ecological situation, depends on a revision of the conversion program (with an increase of the average annual volumes of production of equipment and materials for ecological purposes at reprofiled capacities to R2 billion) and also on the public recognition of the expediency of advancing considerably more rapidly in the ecological sphere than in other priority areas of socioeconomic development.

Section IV. Legislative and Organizational Support for the Economic Reform

The success of the economic reform is possible only with coordination of the actions of all republics and the development of unified principles, scenarios, and deadlines for carrying out the transformations. Moreover, in the shortest possible period of time we must create a legislative basis for the economic reform and an organizational mechanism for its implementation. Some of the necessary laws and normative acts have already been adopted by the Supreme Soviets of the USSR and the union republics. But there is no mutual coordination of these laws and the main thing is that we do not have in effect that minimum set of legislative acts which is necessary for accelerated implementation of the reform.

The package of necessary laws and normative acts should be developed along with the program for reform and be put into effect at the same time throughout the territory of the USSR. This can be done through the publication of ukases of the president of the union. The republics can either ratify these laws or adopt their own with corrections, or they can make changes in the existing laws. The main condition is the observance of the main principles

established with the signing of the Economic Union of Sovereign States. It is proposed that the following basic laws be adopted:

- on the Union Reserve System as a union of central republic banks;
- on a unified monetary system;
- on banks and banking activity;
- on the budget structure;
- on the state debt.

The second group are on entrepreneurship, competition, and release of state ownership of property:

- on freedom of entrepreneurship;
- on land reform;
- on the USSR State Property Fund;
- on the circulation of securities and stock exchanges;
- on restriction of monopolistic activity and development of competition.

The third group concerns foreign economic relations:

- on foreign trade and its regulation;
- on foreign investments and its protection;
- on currency control and regulation;
- on the customs system.

The fourth group concerns social protection of the population:

- on employment;
- on indexation of the incomes of the population.

Along with the adoption of the new legislation, legislative acts that contradict it will be abolished (nullified).

Organizational support for the economic reform. At the basis of the practical actions for implementing the economic reform there should be a program of transformations approved by both the USSR Supreme Soviet and the republic parliaments. The coordination of the concept of the economic reform and its adoption should take place as early as September-October 1990.

The program of the economic reform itself consists of the following blocks:

- the concept of the program;
- developed and detailed programs for individual areas of transformations;
- packages of draft laws and normative and methodological documents grouped according to individual areas;

—network plan-schedules of the program and the blocks comprising it which are coordinated in time and envision variants of actions;

—calculation materials.

Along with the detailed development of individual areas of the economic reform it is necessary to conduct a complete inventory of state property and currency and financial assets. Only then will the program be realistic and will it be possible to avoid unexpected disruptions of its implementation.

During the preparatory period we should not adopt decisions that change the economic situation if they are in no way linked to the general direction and the concept of the reform (additional social programs, new foreign loans, canceling the bank indebtedness of some of the enterprises, introducing money surrogates).

At the same time, the implementation of individual measures of the economic reform which do not require lengthy preparation should begin immediately.

Reorganization of management structures. For the period when the reform is being conducted the executive organs implementing the reform will be granted exclusive rights within the framework of their authority. A clear distinction will be drawn between the authorities of the legislative and executive powers as well as between the various levels of management of the economy (local soviets of the republic—the union).

It is recommended that the republic and local soviets use the following structure of executive organs that are directly carrying out the economic reform:

- Commission for reform or the department for reform in a unified economic ministry;
- Committee for Administering State Property which engages directly in release of state ownership of property;
- Antimonopoly Committee;
- Committee for Land Reform;
- Committee for Supporting Small Business and New Economic Structures;
- Committee for Employment and Organization of Public Work.

The basis of the work of the newly created organizational structures is the program of reform developed taking into account the specific features of the socioeconomic situation of the republic and also the standard normative and methodological documents and new economic legislation. Workers of these state organs must go through the appropriate retraining and have direct access to statistical information.

The union administrative organs are reorganized at the same time as the beginning of the transformations and in

keeping with the Agreement on the Economic Union. They are formed on the basis of equal representation of the republics which are sovereign states, and the corresponding authority is delegated to the union organs by the republics and determined by the agreement. The branch ministries and the bureau of the USSR Council of Ministers for production complexes are to be eliminated. With the participation of the republics there will be a clarification of the functions of the organs for controlling the spheres of activity which require unified leadership on the scale of the Union. The main criterion for the selection of personnel for the reorganized structures is professional qualifications.

Union organs for control of the economy can be created under the leadership of the USSR president. For the period of the transformations and the stabilization of the economy an interrepublic economic committee with the broadest possible authority is to be created.

Information Support The reform process is impeded by senseless secrecy in the area of economic statistics. Scientific analysis of the country's socioeconomic situation and correct international comparisons are impossible and there is a desire to monopolize the truth and embellish reality.

Control of the process of transformations and prompt reaction to the development of events require significant changes in the system for collecting and processing statistical information:

1. The ensurance of openness and availability of economic information.
2. The removal of the USSR State Committee for Statistics and the entire system of statistical organs from the jurisdiction of the USSR Council of Ministers and other organs of executive authority.
3. Publication of economic statistics taking into account the methodology adopted throughout the world both centrally (by the USSR State Committee for Statistics) and by concrete ministries, departments, and organs of authority in the form of collections, journals, and year-books.
4. Determination of the range of data subject to mandatory regular publication in the central press.
5. Regular publication of the methodology for calculating statistical data.
6. Legislative determination of the rights of statistical organs to obtain primary economic information.
7. Creation in the statistical organs of a service for socioeconomic monitoring whose task would be to trace, monitor, and prognosticate economic processes.

With the beginning of economic transformations in the economy, special importance is attached to the "feedback" mechanisms between the control organs and the population. There must be openness in the preparation

Organizational Structure of Management of Economic Reform



Key:

- | | |
|--|--|
| 1. Council of the Federation | 15. Antimonopoly committee |
| 2. USSR President | 16. Ministry of Foreign Economic Relations |
| 3. Presidential Council | 17. Main customs control administration |
| 4. Ukases | 18. Central statistical administration |
| 5. Union Reserve System—Central Bank | 19. Standards administration |
| 6. Interrepublic Economic Committee | 20. Interrepublic program committee |
| 7. Chairman | 21. Ministry of Geology |
| 8. Authorized republic representatives | 22. Ministry of Transportation |
| 9. Specialists | 23. Ministry of Communications |
| 10. Laws | 24. Ministry of Power and Electrification |
| 11. Supreme Soviet of the Union | 25. Committee on ecology |
| 12. Ministry of Finance | 26. Hydrometeorological administration |
| 13. Union contract system | 27. Ministry of the Defense Industry |
| 14. State property fund | 28. Laws |
| | 29. Republic Supreme Soviets |

and implementation of the reform and intensive explanatory work in the mass media. The arrangement of permanent contacts between the leadership of state organs engaged in practical implementation of reform measures and the main sociopolitical schools and parties, as well as professional groups, will also help to relieve social tension. These contacts should become the norm at all levels of state management. It would be expedient to have meetings with representatives of the Armed Forces, the Ministry of Internal Affairs, and the KGB as well as clarification of the role of these institutions during the period of socioeconomic transformations. It should become the rule for the leaders of organs of executive authority to use the data from sociological polls.

Personnel support The work of training specialists capable of leading the practical implementation of the program for economic reform at all levels should begin immediately in keeping with a unified plan and in several areas at the same time:

1. In September-October 1990, send large groups for specialists on key issues of the economic reform for special on-the-job training abroad for a period of 3-12 months. First of all it will be necessary to retrain specialists in finance, the banking system, economic statistics, and placement of the work force.
2. Immediately create a network of courses for training workers of state organs, economic leaders, and specialists on the basis of existing organizations and institutions of an economic profile. Retraining programs are drawn up on the basis of newly developed normative and methodological documents, the training cycle should be calculated for 20-30 days, and modern training methods should be used. Workers of academic institutes, joint enterprises, educational institutions, and Soviet establishments abroad should be enlisted as instructors for these courses.
3. Request that governments and firms of Western countries accept Soviet students, graduate students, and young specialists for economic and commercial training for a period of up to five years as a way of granting aid.
4. Enlist foreign specialists to work on creating elements of the market infrastructure (commodity and stock exchanges, investment funds, labor placement system) and also to prepare and carry out individual areas of the reform.
5. Immediately introduce in all VUZ's courses in general economic theory, market economics, and the study of

various models of its functioning. Provide for the translation of standard Western textbooks in short periods of time.

Section V. Appendices

Note on Information Which the Working Group Has Not Received From Ministries and Departments

Information was requested from USSR and RSFSR ministries and departments so that an analysis could be made of the possible untapped potential in the economy and so that that potential could be taken into account as the reform is carried out to stabilize the standard of living of the population and to mitigate the consequences of the disruptions of economic ties. The requests were sent out to 21 addresses over the signature of S.S. Shatalin, member of the Presidential Council.

The information obtained has been of essential help in the group's work.

Some USSR ministries and departments did not send the information requested to the group, information which in a number of cases was exceedingly important to analyzing the current state of the economy. This has seriously complicated the effort and has made it impossible to do many indispensable calculations.

We list below the items of information requested, but not received as of 31 August 1990.

1. USSR Gosplan

The following material was not submitted:

1. Summary Financial Balance of the State for 1980 and for the 1985-1990 Period.
2. Intersector Balance for 1985, 1987, and 1988. Information on the intersector balance was requested, but none at all was submitted.
3. Balances of Personal Money Income and Expenditures: planned and reported for the USSR and the RSFSR—for 1980 and for the period 1985-1990.
4. Summary Balances of Capital Investments: planned and reported—for 1980 and for the period 1985-1990.
5. Summary totals of the inventory of unfinished construction in 1990.
6. Volumes and branch structures of above-allowance capital investments (planned and actual) for the period 1985-1990.

USSR Gosplan **completely ignored** the working group's request for information. Nothing was received from it except the old material of computations of the Main Computer Center of USSR Gosplan, which has no practical value for the work of the working group.

2. USSR Ministry of Finance

The following material was not submitted:

1. The USSR State Budget in a breakdown by budget classification items, further broken down for the system of budgets, for 1980, 1985-1988, and 1989-1990—by quarters.

The material submitted to the group on the USSR State Budget was of poor quality and differs slightly from what has been published.

2. Summary Foreign Exchange Plan (Balance of Payments) of the USSR, including a breakdown by types of currencies, for 1970, 1980, 1985-1988, and 1989-1990—by quarters.

The absence of this information made it impossible to analyze the foreign exchange situation of the USSR as a whole and to take it into account in the Program of the Reform.

3. The gold reserve of precious metals of the USSR in tons and millions of dollars for 1970 and 1980-1989.

4. The summary financial balance of the state for 1980 and for 1985-1990.

The absence of these very important materials from the information sent by USSR Minfin allows us to speak of what in practice amounts to ignoring the working group's request for information. Minfin submitted second-rate material.

3. USSR Vneshekonombank

Vneshekonombank [Bank for Foreign Economic Activity] completely ignored the working group's request for information and failed to submit the following very important materials:

I. Finances	
1. Volume and structure of the USSR's foreign debt and of indebtedness of other countries to the USSR	1970, 1980, 1985-1990
Including:	
breakdown by countries;	
breakdown by types and maturity of credits;	
in convertible currency	
Structure of expenditures to service the USSR's foreign debt	
2. Volume and structure of Soviet deposits abroad (foreign exchange reserves)	1980-1989, 1990—by quarters
breakdown by maturities;	
breakdown by countries	
3. Analytical note on maturities and amounts of debts incurred with other countries, their possible sale on the world credit market, and so on, and also concerning maturities and amounts of payment and cost of servicing the USSR's foreign debt	In 1990, 1991, 1992, 1993, 1994, 1995, 1996-2000
4. Summary balance of Soviet banks abroad	1980, 1985-1990
II. Credit	
1. Credit plans and reports on their fulfillment, statistics on the money turnover, and related analytical materials	1980, 1985-1989, 1990—by quarters

4. State Foreign Economic Commission of the USSR Council of Ministers

A portion of the information requested was received. But the GVK did not submit a number of exceedingly important materials:

1. Volume and structure of the USSR's foreign debt	1970, 1980, 1985-1990
Including:	
breakdown by countries;	
breakdown by types and maturity of credits;	
in convertible currency	
Structure of expenditures to service the USSR's foreign debt	
2. Volume and structure of Soviet deposits abroad (foreign exchange reserves)	1980-1989, 1990—by quarters
breakdown by maturities;	

breakdown by countries	
3. Analytical note on maturities and amounts of debts incurred with other countries, their possible sale on the world credit market, and so on, and also concerning maturities and amounts of payment and cost of servicing the USSR's foreign debt	In 1990, 1991, 1992, 1993, 1994, 1995, 1996-2000
4. Summary balance of Soviet banks abroad	1980, 1985-1990

5. USSR Ministry of Defense

The USSR Ministry of Defense did not submit the materials requested.

6. The following did not submit any information at all:

- Administrative Department of the CPSU Central Committee
- Administrative Department of the Komsomol Central Committee
- Administrative Department of the AUCCTU

7. USSR Goskomtsen did not submit the material requested, but did send an interesting analytical note (which did not contain the information the group needed).

The following submitted all of the information requested:

- USSR Promstroybank
- USSR Sberbank
- USSR Gosbank
- USSR Agroprombank
- USSR Zhilsotsbank
- USSR Goskomstat
- USSR Gosnab
- USSR Ministry of Foreign Affairs
- State Commission of the USSR Council of Ministers for Food and Purchases

Other ministries and departments of the USSR and RSFSR submitted incomplete information or information that did not correspond to the request and did not meet the deadline.

The Consumer Market

A critical situation has come about on the consumer market. It is largely determined by the dynamic behavior of agricultural production, which is like an attenuated curve tending toward zero growth rates (Figure 1) in spite of the constantly growing investments in the agroindustrial complex. The growth of retail commodity sales in the eighties was very unstable; it was influenced by changes in the import policy of the state, which were not in tune with the economic situation that was taking shape in the country and intensified the fluctuations instead of moderating them (Figure 3). The breakdown of the consumer market was programmed in 1986-1987, when the necessary steps were not taken to augment imports of consumer goods or to stimulate their production within the country.

The sharp rise in the growth rates of retail commodity sales in 1989 and 1990 (as much as 10 or 12 percent) and

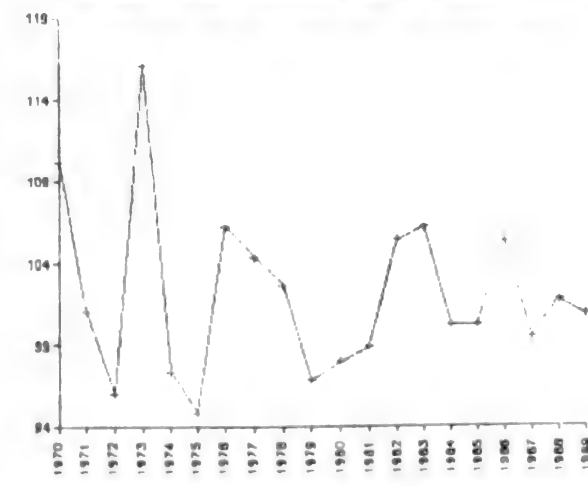
the growth of import purchases (by 19 percent) were 1 or 2 years late. It was a natural consequence of this that personal income and expenditures should get out of balance more rapidly and shortages should increase on the consumer market (Figures 4 and 5). The money supply grew more rapidly, but most of its growth proved excessive and could not be used.

The accessibility of principal foodstuffs to the population declined, according to figures of the All-Union Scientific Research Institute for Study of Public Demand for Consumer Goods and Market Conditions, from 90 percent in 1983 to 22 percent in 1989 and to 11 percent in mid-1990. A similar situation occurred with the goods of light industry and with durable consumer goods and housewares.

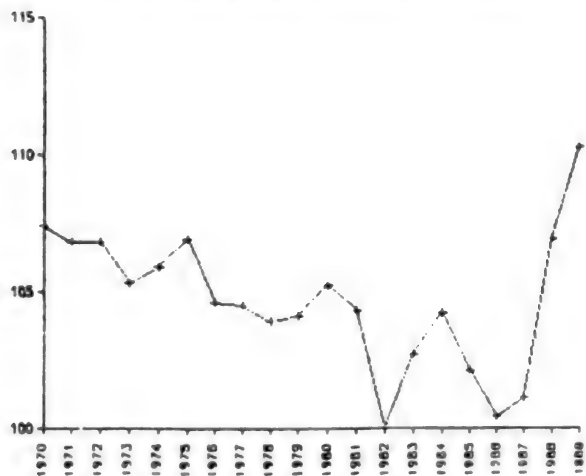
As a consequence, the prices of the kolkhoz market for principal foodstuffs exceeded state prices in the eighties by a factor of 2-2.5.

We cannot but note the destructive impact which the government's program in May had on the state of the consumer market. The announcement of the intention to raise prices twofold on the average beginning on 1 January made the cup of patience run over. A ceaseless rise began of the prices of food on the kolkhoz markets and the prices of nonfood commodities on the "black" market. According to the results of the 2d quarter of 1990, a zero growth was recorded for deposits in Sberbank (while the forecast was 5-6 billion rubles), i.e., this amount of money remained in the hands of individuals, so that the annual plan for issuing cash was "fulfilled" by mid-year.

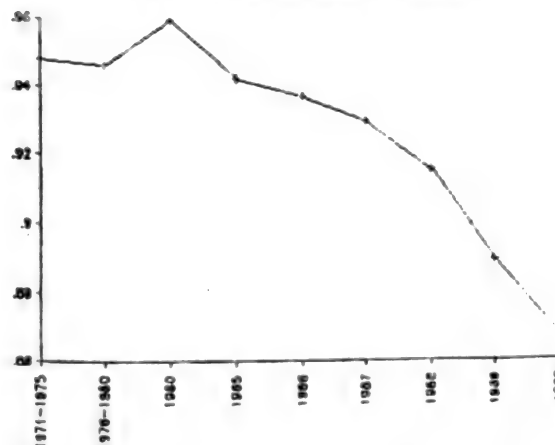
1. Growth Rates of Agricultural Production
(Relative to the Previous Year, in Percentage)



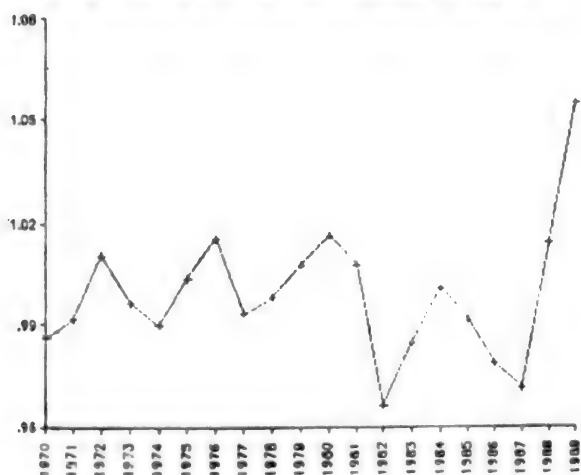
2. Growth Rates of the Production of Group B



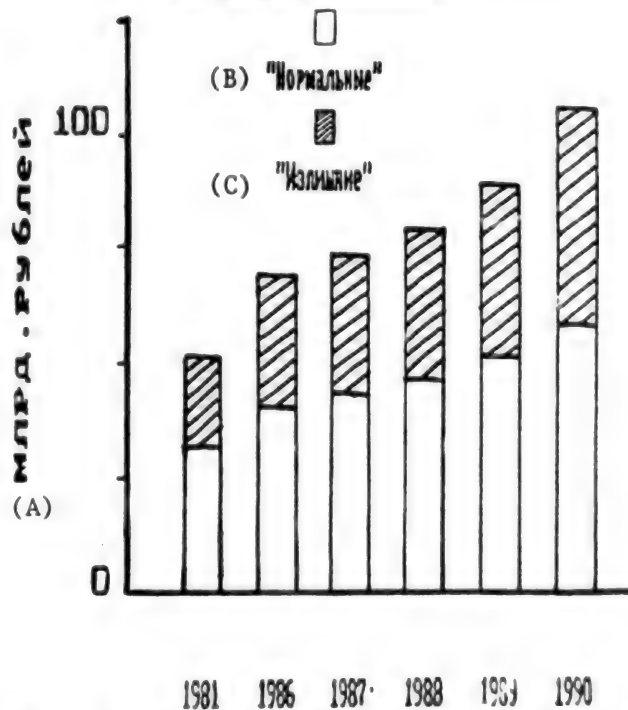
4. Ratio of Personal Expenditures (Not Including Savings) to Income



3. Ratio of the Growth Rate of Retail Commodity Sales to the Growth Rates of the Output of Group B



5. Cash in Circulation



Key:—A. Billions of rubles—B. Normal—C. Excessive

**Variant of Calculation of the Minimum Consumer
Budget of a Man of Working Age, Prepared by USSR
Goskomtrud in 1989**

Minimum Consumption Budget of a Man of Working Age (as of 1988), Food Costs

	Annual Quantity, in kg	Price, in rubles, kopecks	Cost Per Year, in rubles, kopecks
1. Wheat flour	9.1	0.31	2.82
2. Wheat bread	66.7	0.28	18.68
3. Loaf, city	20.0	0.35	7.00
4. Vanilla wafers	4.3	1.12	4.82
5. Rye bread	92.0	0.13	11.96
6. Rice	9.1	0.88	8.01
7. Millet	9.0	0.28	2.52
8. Buckwheat	9.0	0.56	5.04
9. Peas and beans	2.0	0.32	0.64
10. Macaroni	4.0	0.42	1.68
11. Vermicelli	3.3	0.38	1.25
12. Granulated sugar	10.4	0.90	9.36
13. Lump sugar	14.4	1.00	14.40
14. Fruit candies	5.0	1.30	6.50
15. "Vasilek" candies	0.2	5.00	1.00
16. Plum pastries	3.0	0.90	2.70
17. Dry baked goods	0.3	1.40	0.42
18. Strawberry jam	0.5	1.93	0.96
19. Appie butter	2.0	0.91	1.82
20. Vegetable oil	10.0	1.65	16.50
21. Margarine	4.6	1.40	6.44
22. Beef	20.3	2.00	40.60
23. Mutton	10.8	1.90	20.52
24. Pork	10.9	1.90	20.71
25. Chicken	1.1	2.65	2.91
26. Goose	1.1	1.80	1.98
27. Duck	1.0	1.90	1.90
28. Sausage, tea	1.1	1.70	1.87
29. Sausage, Ukrainian	1.1	2.70	2.97
30. Frankfurters	1.1	1.90	2.09
31. Chops	1.6	1.10	1.76
32. Canned meat products	2.0	2.57	5.14
33. Fat-lard	3.0	2.40	7.20
34. Rendered fat	2.5	1.60	4.00
35. Herring, ocean	3.5	0.85	2.97
36. Navaga, Far Eastern (Eleginus gracilis)	2.0	0.80	1.60
37. Codfish	4.0	0.56	2.24
38. Codfish (fillet)	10.0	0.77	7.70
39. Flounder	1.0	0.51	0.51
40. Bream	3.0	0.72	2.16
41. Sprats in oil	0.3	4.40	1.32

Minimum Consumption Budget of a Man of Working Age (as of 1988), Food Costs (Continued)

	Annual Quantity, in kg	Price, in rubles, kopecks	Cost Per Year, in rubles, kopecks
42. Flounder in tomato sauce	0.7	1.81	1.27
43. Milk	184.3	0.28	51.60
44. Sour cream	4.2	1.50	6.30
45. Condensed milk	—	—	—
46. Unsweetened condensed milk	—	—	—
47. Cottage cheese, regular	11.5	0.85	9.77
48. Cottage cheese from skimmed milk	—	0.48	—
49. Cheese, country bumpkin	2.0	2.60	5.20
50. Soft cheese	4.0	1.50	6.00
51. Butter	3.6	3.50	12.60
52. Rendered butter	—	3.50	—
53. Eggs, number	183.0	0.09	16.47
54. Tea	0.5	7.60	3.80
55. Miscellaneous	—	—	1.00
56. Potatoes	146.0	0.19	27.74
57. Fresh cabbage	29.8	0.19	5.66
58. Sauerkraut	15.0	0.16	2.40
59. Beets	13.8	0.18	2.48
60. Carrots	20.2	0.27	5.45
61. Onions	10.2	0.48	4.90
62. Fresh tomatoes	18.2	2.13	38.77
63. Tomatoes, pickled	3.0	0.30	0.90
64. Cucumbers, fresh	7.4	1.78	13.17
65. Cucumbers, pickled	7.4	0.80	5.92
66. Eggplant caviar	1.0	0.72	0.72
67. Scallions	3.0	0.50	1.50
68. Lemons	0.5	3.50	1.75
69. Oranges	1.0	2.00	2.00
70. Apples	11.0	0.91	10.01
71. Pears	2.0	1.10	2.20
72. Dried prunes	3.0	2.00	6.00
73. Grapes	1.0	1.35	1.35
74. Canned fruits	1.8	1.21	2.18
75. Watermelon	20.0	0.24	4.80
Total			
Per year			506.26
Per month			42.19
Expenditures for food in dining rooms and restaurants, rubles			
Per year			101.10
Per month			8.42
Total (including the food service industry)			
Per year			607.36
Per month			50.61

Structure of the Minimum Consumption Budget of a Man of Working Age in 1988 (Basis of the Minimum Wage)

Expenditure Items	Expenditures, in rubles		Percent
	Per Year	Per Month	
1. Food	612.00	51.00	36.9
2. Clothing, underwear, footwear	409.50	34.12	24.7
3. Sanitary articles, personal hygiene products, medicine	40.27	3.36	2.4
4. Furniture, dishes, and cultural goods	227.76	18.98	13.7
5. Housing and municipal services and utilities	71.70	5.98	4.3
6. Culture, education, and recreation	42.30	3.53	2.6
7. Everyday services	49.03	4.09	3.0
8. Transportation	104.00	8.67	6.3
9. Communications	36.75	3.06	2.2
10. Contributions	15.00	1.26	0.9
11. Tobacco products	19.80	1.65	1.2
12. Miscellaneous	30.30	2.53	1.8
Total expenditures	1658.41	138.2	100.0

Calculation of Expenditures for Communications Services (Municipal)

	Number Per Year	Service Life, in years	Rate, in rubles	Cash Per Year, in rubles
Radio service	1	10	3.50	0.35
Telephone installation	1	20	100.00	5.00
Telephone charge			1.00	12.00
Television antenna charge			0.15	1.80
Mail	10		0.06	0.60
Simple telegram, 20 words	4		1.00	4.00
Simple money order, 50 rubles	1		1.00	1.00
Long-distance telephone charges				8.00
Parcel post, 8 kg, ordinary, distance 500 km	2		2.00	4.00
Total Per year				36.75
Per month				3.06

Calculation of miscellaneous expenditures**Gifts**

Per year				22.30
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Flowers

Per year				8.00
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Total

Per year				30.30
Per month				2.53

Calculation of Expenditures To Purchase Sanitary Articles, Personal Hygiene Products, and Medicine

	Stock	Service Life	Annual Purchase	Price (rubles)	Cost of Annual Purchase (rubles)
Bath soap (kg) (10 g each time x 52), 200 g per bar	2.6	1	2.6	0-19	2-47
Toilet soap (kg) (25 g per week), 100 g per bar	1.3	1	1.3	0-23	2-99
Soap for other household purposes (kg)	1.0	1	1.0	0-23	1-15
Laundry soap to wash bed linen (kg), 200 g per bar	3.0	1	3.0	0-23	3-45
Laundry detergent (box), 1.5 kg per box	3.0	1	3.0	1-70	5-10
Toothpaste (number of tubes)	12.0	1	12.0	0-25	3-00
Toothbrush (number of brushes)	1.0	1	1.0	0-27	0-27
After-shave lotion (bottle)	2.0	1	2.0	0-53	1-06
Shaving cream	3.0	1	3.0	0-40	1-20
Shoe polish (tube)	6.0	1	6.0	0-17	1-02
Toilet paper (number of packages)	5.0	1	5.0	0-32	1-60
Cotton	2.0	1	2.0	0-09	0-18
Bandages	3.0	1	3.0	0-10	0-30
Leukoplaster	3.0	1	3.0	0-07	0-21
Enema bag	1.0	3	1/3	0-24	0-08
Hot-water bottle	1.0	1	1/5	0-80	0-16
Thermometer (medical)	1.0	3	1/3	0-42	0-14
Mustard plasters	50.0	1	50.0	0-05	0-25
Skin lotion	2.0	1	2.0	0-09	0-18
Iodine	2.0	1	2.0	0-09	0-18
Valerian	1.0	1	1.0	0-12	0-12
Pirkafen	2.0	1	2.0	0-21	0-42
Analgine	2.0	1	2.0	0-31	0-62
Vitamins	4.0	1	4.0	0-08	0-32
Contraceptives	12.0	1	12.0	1-00	12-00
Mothballs		1	1.0	0-40	0-40
Articles for cleaning dishes					1-00
Comb	1.0	1	1.0	0-40	0-40
Total					
Per year					40-27
Per month					3-36

Calculation of Expenditures for Services for Culture, Education, and Recreation

Types of Services	Expenditure in Rubles
Movies	12-50
Theater	—
Concerts	4-00
Parks	2-00
Museums and exhibitions	2-00
Parks and discotheques	5-00
Zoos	—
Excursions	10-00

Calculation of Expenditures for Services for Culture, Education, and Recreation (Continued)

Types of Services	Expenditure in Rubles
Sporting events	2-00
Recreation	4-80
Publications	34-62
Total	
Per year	76-92
Per month	6-41
Calculation of expenditures for everyday services	
Able-bodied population	

Calculation of Expenditures for Services for Culture, Education, and Recreation (Continued)

Types of Services	Expenditure in Rubles
Per year	49.03
Per month	4.10
Housing and municipal services and utilities	
Able-bodied population	

Calculation of Expenditures for Services for Culture, Education, and Recreation (Continued)

Types of Services	Expenditure in Rubles
Per year	71.70
Per month	5.98
Contributions	
Able-bodied population	
Per year	15.00
Per month	1.25

Calculation of Expenditures for Transportation (Municipal)

	Rate, in rubles	Cost Per Year, in rubles
1. Municipal transportation		
a) Trips to and from work; 250 workdays x 2 = 500 trips	0.10	50.00
b) Errands and trips to the theater, movies, sporting events, to visit friends and relatives; 40 occasions x 2 = 80 trips	0.05	4.00
2. Intercity transportation		
a) 20 occasions outside the city x 2 = 40 trips	0.25	10.00
b) Vacation trip once a year (there and back)	20.00	40.00
Total		
Per year		104.00
Per month		8.67

Calculation of Expenditures for Tobacco Products

Name of Article	Number of Units	Price (rubles)	Cost (rubles per year)
Cigarettes (package)	8 x 12 = 96	0.20	19.20
Matches (box)	5 x 12 = 60	0.01	0.80
Total			
Per year			7120.00
Per month			1.65

Calculation of Expenditures To Purchase Clothing, Underwear, and Footwear

	Stock, number of pieces	Service Life Per Piece (in years)	Annual Purchase	Price Per Article, in rubles	Cost of Annual Purchase, in rubles
1. Winter overcoat	1	7	1/7	180	25.70
2. Topcoat	1	7	1/7	120	17.10
3. Jacket	1	4	1/4	135	33.80
4. Woolen suit	1	3	1/3	160	53.30
5. Woolen-blend suit	1	3	1/3	75	25.00
6. Raincoat	1	4	1/4	110	27.50
7. Woolen-blend trousers	1	2	1/2	27	13.50
8. Summer trousers	1	2	1/2	24	12.00
9. Sweaters	2	3	2/3	30	20.00
10. Shirts	4	2	2	8-50	17.00
11. Work clothing	1	2	1/2	10	5.00
12. Pajamas	1	2	1/2	8	4.00
13. T-shirts	4	2	2	2-50	5.00

Calculation of Expenditures To Purchase Clothing, Underwear, and Footwear (Continued)

	Stock, number of pieces	Service Life Per Piece (in years)	Annual Purchase	Price Per Article, in rubles	Cost of Annual Purchase, in rubles
14. Knitted underwear	2	2	1	8	8.00
15. Shorts	4	2	2	1-40	2.80
16. Swimming trunks	1	2	1/2	5	2.50
17. Woolen scarf	1	3	1/3	4-50	1.50
18. Cloth scarf	1	3	1/3	3	1.00
19. Tie	2	3	2/3	2	1.33
20. Cotton socks	5	1	5	1-00	5.00
21. Wool socks	1	1	1	2-80	2.80
22. Fur hat	1	3	1/3	19	6.30
23. Cap	1	3	1/3	2-50	0.83
24. Woolen gloves	1	2	1/2	4	2.00
25. Hand- or machine-knitted cap	1	4	1/4	7	1.75
26. Insulated shoes	1	3	1/3	40	13.30
27. Polyurethane walking shoes	1	2	1/2	20	10.00
28. Dress shoes (low-cut, leather)	1	2	1/2	30	15.00
29. Rubber footwear	1	3	1/3	8	2.70
30. Slippers	1	1	1	3	3.00
31. Sweat suit	1	9	1/9	16	1.80
32. Pillow	1	7	1/7	9-40	1.34
33. Cotton suit	1	7	1/7	10	1.48
34. Blanket covers	2	4	2/4	10-10	5.05
35. Bed sheets	2	4	2/4	5-10	2.55
36. Pillow cases	3	4	3/4	1-90	1.43
37. Hand towel	2	3	2/3	0-80	0.13
38. Bath towel	2	4	2/4	3-80	1.90
39. Kitchen towel	2	3	2/3	1-10	0.73
40. Handkerchief	5	2	5/2	0-65	1.63
41. Athletic shoes	1	1	1	25	25.00
42. Summer shoes	1	2	1/2	9	4.50
43. Athletic suit	1	3	1/3	55	18.30
44. Umbrella	1	5	1/5	18-50	3.70
45. Gym shoes	1	3	1/3	4	1.30
Total					
Per year					409.50
Per month					34.13

Expenditures for Durables

	Stock, number of units	Service Life Per Unit (in years)	Annual Purchase	Price Per Article, in rubles	Cost of Annual Purchase, in rubles
Refrigerator	1	15	1/15	150	10.00
Washing machine	1	15	1/15	38	2.53
Electric bulb	10	1	10	0-20	2.00

Expenditures for Durables (Continued)

	Stock, number of units	Service Life Per Unit (in years)	Annual Purchase	Price Per Article, in rubles	Cost of Annual Purchase, in rubles
Electric vacuum cleaner	1	12	1/12	25	2.08
Electric iron	1	7	1/7	7	1.00
Lighting fixture	1	10	1/10	23	2.30
Electric coffee machine	1	10	1/10	23	2.30
Table lamp	1	10	1/10	8-50	0.85
Kitchen light	1	10	1/10	3-50	0.35
Electric razor	1	10	1/10	19	1.90
Television set (360 x 270)	1	12	1/12	200	16.70
Radio	1	12	1/12	44	3.67
Tape recorder	1	10	1/10	150	15.00
Camera	1	12	1/12	32-50	2.71
Film for the camera	4	1	4	0-30	1.20
Cassettes for the tape recorder	3	1	3	4-00	12.00
Alarm clock	1	10	1/10	4-50	0.45
Skis	1	6	1/6	13	2.17
Backpack	1	6	1/6	7	1.20
Volleyball	1	4	1/4	7	1.75
Badminton racket	1	7	1/7	11	1.57
Ski shoes	1	12	1/12	18-90	1.58
Bicycle	1	15	1/15	60	4.00
Chess set	1	10	1/10	3-00	0.30
Total					
Per year					89.61
Per month					7.47

Calculation of Expenditures To Purchase Furniture

	Stock	Service Life	Annual Purchase	Price (rubles)	Cost of Annual Purchase (rubles)
Living room, dining room, and bedrooms					
Wardrobe	1	20	1/20	187.00	9.35
Bookcase	1	20	1/20	180.00	9.00
Sideboard	1	20	1/20	250.00	12.50
Dining table	1	15	1/15	55.00	3.70
Couch-bed	1	15	1/15	250.00	16.70
Ordinary bed	1	20	1/20	120.00	6.00
Desk	1	20	1/20	65.00	3.25
Chair	6	10	3/5	18.00	10.80
Television stand	1	15	1/15	46.00	3.06
Recliner	2	15	2/15	46.00	6.10
Curtain rods	1	10	1/10	2.00	0.20
Kitchen					
Breakfast table	1	15	1/15	32.00	2.10
Wall cabinet	1	20	1/20	22.00	1.10

Calculation of Expenditures To Purchase Furniture (Continued)

	Stock	Service Life	Annual Purchase	Price (rubles)	Cost of Annual Purchase (rubles)
Stool	4	10	2/5	4.80	1.92
Worktable	1	15	1/15	56.00	3.73
Breadbox	1	5	1/5	4.00	0.80
Hall					
Wardrobe-hall-stand	1	20	1/20	123.00	6.15
Mirror	1	20	1/20	15.00	0.75
Bathroom					
Mirror	1	20	1/20	5.00	0.25
Shelf	1	20	1/20	7.00	0.35
Total					
Per year					97.81
Per month					8.15

Calculation of Expenditures To Purchase Housewares and Dishes

	Stock	Service Life	Annual Purchase	Price (rubles)	Cost of Annual Purchase (rubles)
Tableware					
Soup plates	6	7	6/7	0.72	0.62
Dinner plates	6	7	6/7	0.66	0.57
Spoons	6	20	3/10	0.55	0.17
Knives	6	20	3/10	1.55	0.35
Forks	6	20	3/10	0.55	0.17
Tea set					
Tea maker	1	6	1/6	1.45	0.24
Cup and saucer	6	6	1	1.15	1.15
Butter dish	1	6	1/6	1.05	0.18
Wine glasses	6	6	1	0.40	0.40
Teaspoons	6	20	3/10	0.40	0.12
Glasses	6	6	1	0.80	0.80
Herring dish	1	6	1/6	0.60	0.10
Sugar bowl	1	6	1/6	0.60	0.10
Kitchenware					
Aluminum saucepan	1	10	1/10	0.85	0.085
Enamelware saucepans:					
5 liters	1	10	1/10	4.95	0.495
2.5 liters	1	10	1/10	3.15	0.315
1.6 liters	1	10	1/10	1.75	0.175
Cast-iron frying pan	1	9	1/9	0.75	0.083
Enamelware tea kettle	1	6	1/6	3.20	0.53
Milk can	1	6	1/6	4.00	0.67
Aluminum colander	1	8	1/8	2.00	0.25
Soup ladle	1	15	1/15	1.70	0.11
Kitchen knife	1	20	1/20	1.00	0.05

Calculation of Expenditures To Purchase Housewares and Dishes (Continued)

	Stock	Service Life	Annual Purchase	Price (rubles)	Cost of Annual Purchase (rubles)
Meat grinder	1	15	1/15	5.00	0.35
Basin for linen	1	8	1/8	2.00	0.25
Enamelware mug	1	6	1/6	0.65	0.108
Tub for soaking linen	1	7	1/7	6.60	0.94
Bucket	1	6	1/6	1.70	0.28
Stew pot	1	15	1/15	2.70	0.18
Cutting board	2	5	2/5	0.40	0.16
Total					
Per year					10.00
Per month					0.83

System of Coefficients for Differentiating Budgets of Minimum Financial Security by Age- and Sex-Specific Population Groups

Sex- and Age-Specific Population Groups	Coefficient (Unit—Urban Male Age 30-59 Years)	
	Urban	Rural
Boys		
0-2 years	0.30	0.30
3-6 years	0.40	0.30
7-12 years	0.50	0.40
13-17 years	0.70	0.50
Girls		
0-2 years	0.30	0.30
3-6 years	0.40	0.30
7-12 years	0.50	0.40
13-17 years	0.70	0.60
Men		
18-29 years	1.04	0.90
30-59 years	1.00	0.90
60 years and over	0.70	0.60
Women		
18-29 years	1.01	0.90
30-54 years	0.98	0.88
55 years and over	0.70	0.70
Childless couple 18-29 years old	1.90	1.60
Family: parents 18-29 years old with a 7-year-old boy	2.40	2.00
Family: parents 18-29 years old with a 2-year-old boy and a 6-year-old girl	2.60	2.20
Family: parents 30-54 years old with a 4-year-old boy, an 8-year-old girl, and a 14-year-old boy	3.50	2.90
Family: parents 30-54 years old with a 16-year-old girl, the mother is retired	3.00	2.50
Mother, single parent with child ¹ (6-year-old boy)	1.40	1.20
Mother, single parent with two ² children (a 6-year-old boy and a 10-year-old girl)	1.90	1.60

¹ The woman is 18-29 years old.² The woman is 30-54 years old.

The minimum consumer budget reflects that structure of consumption and that level of satisfaction of needs which society considers the minimum permissible in this stage. It is a calculated quantity and depends essentially on the method of computation. The present methodology has now been linked to the actual standard of living of the poorest families in our country, which can be characterized not as inadequacy, but as poverty. This approach orients the minimum consumer budget toward satisfying the physiological needs at the lowest level, leaving no opportunities for development of the personality. This can be clearly traced in the example of computing the minimum consumer budget of the man of working age which USSR Goskomtrud submitted in 1989.

The method of linking minimum levels of income (wages, pensions, scholarships, and so on) to the level of

the subsistence minimum which has been traditionally calculated, which has been promised by the Union government, will reinforce poverty and its expanded reproduction even for the future.

The character of manpower necessary to guarantee society's progressive development, of manpower oriented toward constant improvement, requires a fundamentally different approach to determination of its cost. It is not just a question of the size of the minimum consumer budget, but of a qualitatively different structure of that budget, of an orientation toward development not only of man's physical requirements, but also of his nonmaterial requirements. This is a transition to a different system of estimates. That cannot be achieved in our country through evolution; what we need is a major reform of the relations in distribution and establishment of new principles governing the formation of income. An appropriate state income policy must be the mechanism for achieving that.

Estimate of the Possible Scale of Privatization (Data as of the Beginning of 1989)

	Balance Sheet Value of Property, billions of rubles	Share of Property Subject to Privatization, percent	Amount of Property Subject to Privatization, billions of rubles
1. Fixed capital, including livestock	2699	55.9	1509
1.1. Fixed productive capital	1808		1011
1.1.1. Of industry	883	56.0	574
1.1.2. Of agriculture	354	65.0	230
1.1.3. Of construction	94	75.0	70
1.1.4. Of transportation and communications	378	15.0	57
1.1.5. Of trade, the food service industry, procurements, machine and tractor stations, etc.	99	80.0	80
1.2. Fixed nonproduction capital	891	55.9	498
1.2.1. Housing construction	499	80.0	400
1.2.2. Municipal utilities and services, everyday services	123	80.0	98
2. Unfinished construction	190-200*	30.0	60
3. Stocks of materials	540-550*	50.0	270
4. Sale of land			
Total			1839

* Estimate as of 1 July 1990.

Estimate of the Possible Amount of Privatization in the Trade Sector (Calculated Data as of 1989)

1. Sales of small stores				
Grouping of Stores by Area, m ²	Number, thousands	Number of Employees Per Store, number of persons	Value of Fixed Capital of Stores, millions of rubles	Value Per Store at Time of Purchase, thousands of rubles
Less than 30	98.2	2	873	2-6
30-100	299.9	4	6554	9-16
100-250	127.9	11	8012	25-40
Total	526.0	—	15439	—

Estimate of the Possible Amount of Privatization in the Trade Sector (Calculated Data as of 1989) (Continued)**Assuming sale of:**

100%	526.0		8000-12000	
50%	263.0		4000-6000	
25%	131.5		2000-4000	
10%	52.6		1000-2000	

2. Privatization of medium-sized stores

Sales Floor Area, m ²	Number of Stores	Number of Workers Per Department Store, number of persons	Value of Fixed Capital, millions of rubles	Value Per Store at Time of Purchase, thousands of rubles
250-650	57800	26-30	9600	120-150
650-1500	9800	55-70	3520	250-300

Assuming sale of:

100%	57600		8000-10000	
50%	28800		4000-5000	
25%	14400		2000-3000	
10%	7700		1000-2000	

Note: The value of the stores was determined by expert evaluation after deduction of the wear on fixed capital and taking into account working capital and inventories and the possibility of the various sales terms and conditions.

In calculating the income of the state from the sale of small and medium-sized stores, the total amount of the sales should be cut approximately in half (half of the stores belong to consumer cooperatives and cooperatives of other types).

3. Stock in the largest department stores

More than 1500	1700	150-200	2134	800-1000
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Assuming sales of:

100%	1700		1100-1600	
50%	850		600-800	
25%	425		300-400	
10%	170		150-200	

Total Assuming Different Versions of Privatization

Version	Billions of Rubles	
	Total Sales	Income of State
1. 50% of small stores	4.00-6.0	2.00-3.0
10% of medium-sized stores	1.00-2.0	0.50-1.0
10% of large stores	0.15-0.2	0.75-0.2
Total	5.20-8.2	2.60-4.2
2. 100% of small stores	8.00-12.0	4.00-6.0
25% of medium-sized stores	2.70-3.0	1.00-2.0
50% of large stores	0.60-0.8	0.60-0.8
Total	10.60-15.8	5.60-8.8
3. 100% of small stores	8.00-12.0	4.00-6.0
50% of medium-sized stores	4.00-5.0	2.00-3.0
100% of large stores	1.00-1.5	1.00-1.5
Total	13.00-18.5	7.00-10.5

Principles for Balancing the Union Budget in the 4th Quarter of 1990

The basis of the calculations is the plan of the budget for the 4th quarter of 1990 submitted by the USSR Ministry of Finance: revenues—46.9 billion rubles, expenditures—62.5 billion rubles, deficit—15.6 billion rubles.

1. Reduction of expenditures:**a) Special reduction:**

- of capital investments—20 percent;
- of operating expenses—30-50 percent;
- of military expenditures (to purchase military equipment)—50-70 percent;
- expenditures for foreign economic activity (aid and credits to other countries would be frozen for the quarter at the level of 0 rubles);

b) Identification of "protected" items:

- social welfare and cultural measures;
- the financing of law enforcement agencies;
- expenditures to service the state debt;
- expenditures to conduct elections of USSR people's deputies;

c) Reduction of all the unprotected items by 10-15 percent.

Result: Reduction of expenditures from the union budget by 10 billion rubles.

2. Growth of revenues:

Reorientation of foreign economic activity, stimulation of the production of goods for export—by 10-20 percent, or 1.5-3 billion rubles;

Intensification of production at existing capacities of several of the most tax-intensive products—a growth of collection of the turnover tax by 10-20 percent, or 0.8-1.5 billion rubles.

Result: An increase of revenues by 2-4 billion rubles.

Possible reduction of the deficit in the union budget to 1.6-3.6 billion rubles.

3. Variants for financing the budget deficit:

- issuing special-purpose loans for 1-3 billion rubles;
- issuing state loan bonds bearing interest in foreign exchange in the amount of 1-3 billion rubles;
- issuing bonds of short-term loans (90-180 days) for 1-2 billion rubles;
- growth of personal account balances in foreign exchange thanks to legalization of accumulation of foreign exchange;
- growth of account balances of individuals in time deposits thanks to a higher rate of interest.

Conclusion: The growth of budget expenditures related to carrying out the measures of the transition to market relations could be financed through redistribution of the total money supply without increasing it, i.e., by noninflationary methods.

Forecasting Calculations

Performance of the extraordinary measures up to the end of 1990 will substantially improve the monetary and financial situation in the economy.

Table 1 gives a forecast of the balance of personal income and expenditures at the end of 1990 in two versions: an extrapolation version extending the trend of 1990 (Variant 1) and a program version reflecting beginning of the performance of the extraordinary measures in the monetary and financial sphere (Variant 2).

Table 1. Balance of Personal Income and Expenditures, Billions of Rubles

		1990 (forecast)	
Indicators	1989	Variant 1	Variant 2
Income			
1. Wages	408.5	455	455
2. Pensions, benefits, and scholarships	76.8	87	87
3. Interest on deposits	8.0	9	12
4. Miscellaneous income (original reads expenditures)	64.0	74	74
Total income	557.3	625	628
Expenditures			
1. Purchase of goods and services	430.4	490	490
2. Mandatory and voluntary payments	63.8	72	72
3. Purchase of foreign exchange and precious metals	1.0	2	15
4. Purchase of housing, plots of land, and garages			5
5. Savings + note issue	62.1	61	46
Total expenditures	557.3	625	628
Money accumulation			
1. Deposits in banks	337.9	367	361
2. Cash	105.1	124	110
3. Certificates	2.8	4	4
4. Other accumulation	43.3	56	55
Value of material assets			
1. Personal household property of individuals	860.0	940	970
2. Value of housing and plots of land	160.0	166	176

The difference between the variants lies in the substantial amounts of sale of foreign currency, gold, and precious metals, the maximum possible sale of housing units, plots of land, and garages—for a total amount of about 20 billion rubles. The measures related to reducing the liquidity of personal savings are given in more detail in Table 5. These measures will make it possible to lower the rate of savings from 10 to 7 percent. Increasing interest rates on time deposits (to 5 percent on annual deposits up to the end of 1990 and to 7 percent beginning on 1 January 1991) will increase income from interest by

3 billion rubles, but it will increase the share of time deposits from 40 to 50 percent. All of these measures will reduce the liquid money supply in the hands of individuals (cash plus sight deposits) from 407 billion rubles to 360 billion rubles, which will make it possible to enter the market economy more confidently.

The extraordinary measures of monetary and financial policy should have the most beneficial effect on reduction of the budget deficit. Table 2 also gives two versions of the budget for 1990.

Table 2. Revenues and Expenditures of the State Budget, Billions of Rubles

1990 (forecast)					
		Variant 1		Variant 2	
Indicators	1989	For Year	4th Quarter	For Year	4th Quarter
Revenues					
1. Turnover tax	111.1	121.9	30.5	122.0	30.5
2. Payments from profit	115.5	121.6	30.4	120.0	30.0
3. Social insurance resources	33.1	44.8	11.2	45.0	11.3
4. Revenues from foreign economic activity	67.2	59.6	14.9	60.0	15.0
5. Personal taxes	41.7	43.5	10.9	43.5	10.9
6. Other	33.3	38.5	9.6	38.5	9.6
Total revenues	401.9	429.9	107.5	430.0	107.3
Expenditures					
1. Financing the national economy	200.1	188.2	47.1	175.0	34.3
Breakdown:					
Capital investments	68.0	42.2	10.6	40.0	8.8
Subsidies and supplements	1.8	16.8	4.2	12.6	0
Operating expenses	8.0	11.8	3.0	11.2	2.4
Food subsidies	97.9	95.9	24.0	91.2	19.3
Other	24.4	21.5	5.3	20.0	3.8
2. Financing foreign economic activity	28.4	26.9	6.7	25.6	5.4
3. Financing social welfare and cultural programs	139.3	160.5	40.1	160.5	40.1
4. For science	10.1	10.9	2.7	10.0	2.5
5. For military expenditures	75.2	71.0	17.8	67.5	14.3
6. Other expenditures	29.9	32.4	8.1	31.0	6.7
Total expenditures	482.6	489.9	122.5	469.6	103.3
Deficit	-80.7	-60.0	-15.0	-39.6	+4.0

The reduction of expenditures for all items which are not social welfare (unprotected) will be made at the rate of 5 percent of the annual volume, or 20 percent of the expenditures in the 4th quarter (since performance of the program is beginning on 1 October). The payment of subsidies to enterprises operating at a loss will be terminated almost entirely. This will put them on the verge of bankruptcy and will require either that they change the prices of their products or issue debentures or go through privatization, should there be a possibility of eliminating the losses.

The deficit in the state budget will be brought down to 25 billion rubles by the end of the year, which is 2.5 percent of GNP. In the 4th quarter, the revenues of the state budget would exceed expenditures by 4 billion rubles.

The forecast of income and expenditures of sectors and branches is given in Table 3. Given the severe reduction of budget expenditures, enterprises will show less profit insofar as it is formed from budgets from the state budget; expenditures of enterprises and organizations for capital investment will be reduced first of all.

Table 3. Income and Expenditures of Enterprises and Organizations in the Economy (Including Kolkhozes), Billions of Rubles

		1990 (forecast)	
Indicators	1989	Variant 1	Variant 2
Revenues			
1. Profit	270	265.0	253.0
2. Depreciation	141	146.0	146.0
Total	411	411.0	399.0
Expenditures			
1. Payments into budget	117	123.3	121.3
2. Major repairs	63	67.0	67.0
3. Financing capital investments	144	143.5	135.7
4. Payment of bonuses from material incentive fund, expenditures for social welfare, and other expenditures	87	77.2	75.0

The restrictive monetary and credit policy will have the impact of reducing the money supply and reducing its

liquidity. The state of the components of the money supply is represented in Table 4.

Table 4. Money Supply (Billions of Rubles)*

Indicators	As of 31 Dec 90		
	As of 31 Dec 89	Variant 1	Variant 2
M ₀ Cash (in the hands of individuals plus the cash drawer of enterprises)	110	130	116
M ₁ M ₀ plus personal resources in sight deposits, bonds, certificates, insurance policies	357	407	360
M ₂ M ₁ plus	704	758	734
Time deposits of individuals	136	158	191
Resources of cost-accounting organizations	108	110	100
Resources of budget-financed and public organizations and Gosstrakh	103	83	83

* Not including resources involved in foreign transactions.

Reduction of the liquid part of M₁ from 407 billion rubles to 360 billion rubles will be one of the principal results of the restrictive monetary policy. Funds in the accounts of enterprises and organizations are being reduced mainly by restricting the issuance of credit.

Table 5 gives a list of the measures aimed at reducing the deficit in the state budget and reducing the liquidity of the money supply.

Table 5. Monetary and Financial Measures in the Stabilization Period, Billions of Rubles

		1991				
Designation	100 Days of 1990	Jan-Mar	Apr-Jun	Jul-Oct	Oct-Dec	1991
Reduction of the budget deficit (in comparable prices)						
1. Reduction of the financing of capital investments	2.2	2.2	2.2	2.2	2.2	8.8
2. Reduction of subsidies	9.0	8.0	8.0	8.0	8.0	32.0
3. Reduction of the financing of foreign economic relations	1.3	1.3	1.3	1.3	1.3	5.2
4. Reduction of the financing of military expenditures	3.5	3.5	3.5	3.5	3.5	14.0
5. Reduction of other expenditures	3.5	3.5	3.5	3.5	3.5	14.0

Table 5. Monetary and Financial Measures in the Stabilization Period, Billions of Rubles (Continued)

		1991				
Designation	100 Days of 1990	Jan-Mar	Apr-Jun	Jul-Oct	Oct-Dec	1991
Reduction of the budget deficit (in comparable prices)						
6. Reduction of the deficit thanks to price factors	—	5.0	7.0	7.0	7.0	26.0
Total	19.5	23.5	25.5	25.5	25.5	100.0
Reduction of the liquidity of the money supply (in current prices)						
1. Sale of foreign exchange	10.0	10.0	8.0	3.0	3.0	24.0
2. Sale of gold	2.0	5.0	2.0	—	—	7.0
3. Sale of housing units, garages, and plots of land	5.0	10.0	10.0	7.0	7.0	34.0
4. Sale of the loan bonds of the reform	1.0	4.0	4.0	3.0	3.0	14.0
5. Sale of assets representing unfinished construction	1.0	5.0	5.0	3.0	1.0	14.0
6. Privatization of small enterprises	0.5	1.0	1.0	3.0	10.1	15.0
7. Sale of stocks	0.5	1.0	1.0	3.0	10.0	15.0
Total	20.0	36.0	31.0	22.0	34.0	123.0

The estimate of budget reduction is given in comparable prices. It signifies a real reduction of subsidies (mainly those taking the form of differential supplements), reduction of aid to foreign states, reduction of military purchases and other expenditures. The reduction of expenditures resulting from price factors signifies that the revenues of the budget are rising because of the larger rise of rent than the increase in expenditures resulting from price rises.

The measures related to reducing the liquidity of the money supply are given in current prices. Here, the

proceeds from the sale of foreign exchange and gold and from privatization are going to extinguish the state debt. In the first 100 days, about 15 billion rubles will be repaid, and in 1991 about 89 billion rubles.

The liberalization of retail and wholesale prices will begin in 1991. Forecast estimates have been made of that period in three variants of the balance of personal income and expenditures, of budget revenues and expenditures and of the total money supply. The balance of personal income and expenditures is given in Table 6.

Table 6. Balance of Personal Income and Expenditures, Billions of Rubles

Indicators	Variant 1					Variant 2					Variant 3				
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1991	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1991	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1991
Income															
1. Wages	123	144	150	160	577	123	144	150	160	577	123	144	169	179	595
2. Pensions, benefits, and scholarships	25	30	31	34	120	25	30	31	34	120	25	30	35	38	128
3. Interest on deposits	7	7	8	9	31	7	7	8	9	31	7	10	12	14	43
4. Other income	28	30	30	30	118	28	30	30	30	118	28	32	35	37	132
Total income	183	211	219	233	846	183	211	219	233	846	183	216	241	258	898
Expenditures															
1. Purchase of goods and services	133	159	173	183	638	158	178	173	183	692	158	191	213	228	790
2. Mandatory and voluntary payments	20	23	24	26	93	20	23	24	26	93	20	25	28	30	103
3. Purchase of foreign exchange and precious metals	15	10	3	3	31	2	2	3	3	10	5	0	0	0	5
4. Purchase of housing, plots of land, and other assets	15	15	10	10	60	3	4	10	10	27	0	0	0	0	0

Table 6. Balance of Personal Income and Expenditures, Billions of Rubles (Continued)

	Variant 1					Variant 2					Variant 3				
5. Savings + note issue	0	4	9	11	24	0	4	9	11	24	0	0	0	0	0
Total expenditures	183	211	219	233	846	183	211	219	233	846	183	216	241	258	898
Rise of prices, in percentage	112	119	109	105	153	130	113	100	105	155	132	121	111	107	190
Money accumulation															
1. Bank deposits	361	365	373	384	384	400	404	413	424	424	422	455	440	430	430
2. Cash	110	110	110	110	110	110	110	110	110	110	110	130	145	155	155
3. Other accumulation	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60

The first variant is characterized by high rates of privatization, of the sale of housing units, plots of land, and garages, of foreign exchange, gold, and precious metals (in keeping with the estimates in Table 5). According to this variant, in the first period we observe a small rise of prices (12 percent), and then the increase will be 19 percent. In the third and fourth periods, prices will rise 9 percent and 5 percent, respectively. A total of 91 billion rubles of assets will be sold in the first variant. In addition, the sale of stock and bonds may reduce the amount of time deposits of individuals.

In the second variant, the measures to tie up savings will not become fully developed in the first period (only 5 billion rubles in the first period as compared to 30 billion rubles in the first variant). For that reason, the rise of prices will be 32 percent in the first period. In the second period, the measures to tie up savings increase to 6 billion rubles, and in the third and fourth to 13 billion rubles over the period. Accordingly, the rise of prices in the second through the fourth periods will be 14 percent.

In the first and second variants, the rate of savings increases from 0 percent to 2 percent in the second period, 4 percent in the third, and 5 percent in the fourth period. The rise of prices will be 53-55 percent for the year.

The third variant is characterized by the worst conditions: there is no offering of physical assets, the rate of savings does not increase. The main instrument making it possible to balance prices is the policy of restricting incomes, which are indexed with a coefficient of 0.5 to the rise of prices for the cost-accounting sphere and a coefficient of 0.7 for pensions, benefits, scholarships, and wages in the nonproduction sphere paid from the budget.

The growth of incomes in the first and second variants is 15 percent in the second period and 4-6 percent in subsequent periods. "Other income" includes the payment of unemployment benefits (20-25 billion rubles on an annual basis).

Table 7 gives the price indices of consumer goods by complexes.

Table 7. Price Indices for Groups of Consumer Goods

Commodity Groups	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1991
1. Food					
1	1.25	1.25	1.00	1.00	1.56
2	1.41	1.17	1.00	1.00	1.65
3	1.41	1.18	1.08	1.06	1.76
2. Alcohol					
1	1.00	1.10	1.08	1.00	1.18
2	1.32	1.03	1.00	1.00	1.36
3	1.32	1.12	1.04	1.03	1.58
3. Commodities of light industry					
1	1.00	1.13	1.08	1.05	1.22
2	1.28	1.06	1.00	1.05	1.36
3	1.28	1.13	1.06	1.04	1.59
4. Nonfood goods and services (not including the commodities of light industry)					
1	1.00	1.18	1.16	1.11	1.52
2	1.28	1.16	1.00	1.11	1.65

Table 7. Price Indices for Groups of Consumer Goods (Continued)

Commodity Groups	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1991
3	1.28	1.30	1.186	1.11	2.14
Total					
1	1.12	1.19	1.09	1.05	1.53
2	1.30	1.13	1.00	1.05	1.55
3	1.32	1.21	1.11	1.07	1.90

The rise of prices of products for production and technical purposes will be determined by introducing new rates in social insurance schedules (38 percent) and by the need to increase prices of fuel and raw materials. Assuming that the prices of fuel and raw materials double initially (and later by another 30-40 percent), the rise of wholesale prices will be 25-30 percent in the first 3 months. The protection of price levels of consumer

goods will be guaranteed by redistribution of the turnover tax from products of the manufacturing branches to the prices of intermediate products and rent in the raw materials branches, and also by reduction of profit in the manufacturing branches.

Table 8 gives price indices for complexes according to the three variants.

Table 8. Wholesale Price Indices

Designation	Variant 1	Variant 2	Variant 3
1. Metallurgical complex	1.60	1.60	1.70
2. Fuel and energy complex	2.18	2.18	1.70
3. Machinebuilding complex	1.12	1.12	1.25
4. Wood chemical complex	1.24	1.24	1.36
5. Building materials industry	1.30	1.30	1.45
6. Timber and lumber industry	1.20	1.35	1.60
7. Food industry	1.56	1.65	1.76
8. Agriculture	1.12	1.15	1.33
9. Construction	1.12	1.12	1.25
10. Transportation and communications	1.40	1.40	1.55
11. Trade sector, other branches	1.30	1.30	1.44
Total	1.30	1.30	1.45

The revenues and expenditures of the budget are given in Table 9. As we see from the table, after the extraordinary measures are carried out, revenues will increase by 146 billion rubles because of price factors (206 billion rubles in Variant 3), but the indexing of budget expenditures and also the emergence of the new items

of paying unemployment benefits and the substantial increase of payments of interest on the state debt also increase expenditures by 120 billion rubles (183 billion rubles). But the combination of the severe financial measures will make the budget deficit-free in 1991.

Table 9. Revenues and Expenditures of the State Budget in 1991

Indicators	Variant 1					Variant 2					Variant 3				
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1991	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1991	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1991
Revenues															
1. Turnover tax	34	38	39	39	150	36	40	40	40	156	36	43	48	50	177
2. Profit tax	20	20	20	20	80	20	20	20	20	80	25	25	25	25	100
3. Rent	15	15	15	15	60	15	15	15	15	60	20	20	20	20	80
4. Social insurance contribution	38	43	43	46	170	38	43	43	46	170	38	43	43	46	170

Table 9. Revenues and Expenditures of the State Budget in 1991 (Continued)

Indicators	Variant 1					Variant 2					Variant 3				
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1991	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1991	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	1991
5. Revenues from foreign economic activity	15	15	15	15	60	15	15	15	15	60	15	15	15	15	60
6. Personal taxes	11	13	13	13	50	11	13	13	13	50	11	13	13	13	50
7. Other	10	10	10	10	40	10	10	10	10	40	10	10	10	10	40
Total	143	154	155	158	610	145	156	156	159	616	155	169	174	179	677
Expenditures															
1. Financing the economy	37	37	38	38	150	37	37	38	38	150	40	42	44	44	170
2. Expenditures for social welfare and cultural programs	51	56	58	61	226	51	56	58	61	226	54	59	64	67	244
3. Payment of unemployment benefits	2	4	6	8	20	2	4	6	8	20	3	5	7	10	25
4. Defense expenditures	20	20	20	20	80	20	20	20	20	80	23	23	22	22	90
5. Expenditures for foreign economic activity	10	10	10	10	40	10	10	10	10	40	10	10	10	10	40
6. The servicing of the domestic state debt	10	10	10	10	40	10	10	10	10	40	10	10	10	10	40
7. Other	14	14	14	14	56	14	14	14	14	56	15	15	15	15	60
Total	144	151	156	161	612	144	151	156	161	612	159	168	176	182	685
Revenues minus expenditures	-1	+3	-1	-3	-2	+1	+5	0	-2	+4	-4	+1	-2	-3	-8

The profit of enterprises (200 billion rubles in Variants 1 and 2 and 250 billion rubles in Variant 3) is used after payment of taxes (80-100 billion rubles) to pay bonuses (80-100 billion rubles within the limits of total income realized in wages) and other social expenditures (40-50 billion rubles). When interest rates on loans are between 10 and 25 percent, enterprises pay 30-80 billion rubles in interest. The transformation of state enterprises into joint stock companies in the amount of 100 billion rubles

on an average annual basis will bring the state budget additional revenues in the form of 10-15 billion rubles of dividends which must be committed to paying interest on the state debt and/or indexing the savings of the population (in Variants 2 and 3).

The dynamic behavior of the components of the money supply for 1991 in the period of conducting the reform is presented in Tables 10 and 11.

Table 10. Money Supply in 1991 (Billions of Rubles) (Variants 1 and 2)

Indicators	1991					1 Jan 1992
	1 Jan	1 Apr	1 Jul	1 Oct		
M ₀ Cash (in the hands of individuals plus the cash drawer of enterprises)	116	116	116	116		116
M ₁ M ₀ plus personal resources in sight deposits, bonds, certificates, insurance policies	360	360	360	360		360
M ₂ M ₁ plus	734	743/773	738/777	746/786		767/797
Time deposits of individuals	191	191/230*	195/234	203/243		214/254
Resources of enterprises, organizations, and other accounts	183	183	183	183		183

* The numerator is Variant 1, deposits not indexed; the denominator is Variant 2, deposits indexed.

Table 11. Money Supply in 1991 (Billions of Rubles) (Variant 3)

Indicators	1991				1 Jan 1992
	1 Jan	1 Apr	1 Jul	1 Oct	
M ₀	116	116	136	150	160
M ₁	360	360	360	360	360
M ₂	734	795	848	848	848
Breakdown:					
Time deposits of individuals	191	252	305	305	305
Resources of enterprises and organizations	183	183	183	183	183

The deposits are indexed if there is a sharp rise of prices by approximately 40 billion rubles, which is paid off thanks to the very sharp rise in interest rates (should there be a rise of prices), the payment of interest on the state debt, and also the income from privatization (if that income reaches an adequate level).

Should there be a substantial rise of prices (Variant 3), deposits of individuals are indexed twice by the amounts of 61 billion rubles and 53 billion rubles. It is possible to increase the amount of cash in order to serve cash and money turnover; this occurs thanks to a decrease in balances in sight accounts.

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- International Scientific Research Institute of the Problems of Management (CEMA);
- Institute of the Economics of the World Socialist System of the USSR Academy of Sciences;
- Central Mathematical Economics Institute of the USSR Academy of Sciences;
- All-Union Institute for Research on Market Conditions of the USSR International Bank for Economic Cooperation;

- Commission for Examination of Alternative Variants of the Economic Reform;
- Draft of the Law on Employment prepared by the AUCCTU;
- material of the Main Administration for Combating the Embezzlement of Socialist Property and Speculation of the USSR Ministry of Internal Affairs concerning the shadow economy.

The administrative department of the RSFSR Council of Ministers provided organizational and technical services, and the supervisor of the group was V N. Rabotyzhev.

Those responsible for the publication ask forgiveness for stylistic errors, which will be corrected when the second edition is printed.

Footnotes

1. The accelerated growth of the money supply (M_3 , serving both cash and non-cash circulation) in comparison with the growth of the GNP is a concentrated reflection of the economic policies of recent years and the source of today's financial crisis. The graph clearly shows how the growth of the money supply speeded up after 1987 (the fall in the M_3 in 1986 is connected with a change in the method of calculation).
2. The text of this section was coordinated word for word with representatives of the republics that took part in the work on the Program, and in some instances it may diverge from the provisions of other portions of the Program.
3. During the transition period, the use of any trade limitations on exchange of the most important goods is forbidden. Lists, maximum prices, and volumes of goods freely sold on the All-Union market are defined by all the republics in a separate agreement.
4. The material in the parentheses is an amendment proposed by individual republics.
5. The general total of expenditures on an article is determined taking into consideration expenditures which the republic assumes voluntarily.
6. The material in the parentheses is a version proposed by Kazakhstan, Uzbekistan, and Kirghizia.

PART II—DRAFT LEGISLATION

The draft legislative enactments comprising the second part of this Program shall form a basis for drafting corresponding laws in the republics.

Draft Law of the Union of Soviet Socialist Republics on the USSR Reserve System

Section I. General Provisions

1. The USSR Reserve System is a voluntary association of state (central) banks of sovereign states, performing the functions of a USSR unified central bank.
2. For purposes of monetary, credit and currency regulation, the Reserve System shall constitute a single legal entity.
3. The sovereign republics shall voluntarily delegate to the Reserve System currency-emission and regulatory functions, for the purpose of ensuring uniformity of the USSR monetary system and stable purchasing power of the ruble as the common unit of currency.
4. The Reserve System shall be responsible for the purchasing power of the ruble and the ruble's rate of exchange with foreign currencies, for the implementation of monetary, credit, and currency policy, a banking oversight system, currency control and regulation, and organization of interbank transactions.
5. The Reserve System shall have a seal bearing its name.

Section II. Organization of the Reserve System

6. The Reserve System shall consist of the 15 state (central banks of) sovereign states.
7. The banks of the Reserve System shall operate on the basis of this Law and the banking laws of the corresponding states.
8. The Board of Directors shall constitute the highest body of the Reserve System. Board membership shall consist of the Chairman of the Board and his four deputies, plus the directors of all central banks of the sovereign republics.
9. The Chairman of the Board and his four deputies shall be appointed by the President of the USSR for a term of six years, serving no more than two terms in succession.
10. The Board of Directors shall have a permanent administrative staff, formed on the basis of the USSR Gosbank board. The Board of Directors shall constitute the successor to the board of USSR Gosbank.
11. Decisions shall be reached by a simple majority vote of those members present and shall be binding. The presence of no fewer than half of the members of the Board of Directors shall be considered a quorum.
12. The directors of the central banks of the sovereign republics shall be appointed by the President (Chairman

of the Supreme Soviet) of the republic for a term of six years, regardless of when a new government is formed.

13. A member of the Board of Directors may be removed from office only for reasons of health, inability to perform his duties, or voluntary resignation with the consent of the corresponding Supreme Soviet.

14. Deputies to soviets at all levels, as well as persons with business obligations vis-a-vis enterprises or banks may not serve as members of the Board of Directors.

15. Members of the Board of Directors must have work experience in the finance and credit system.

16. The director of the republic central bank shall be the official representative of the Reserve System in the given republic.

17. The Board of Directors shall submit an annual report to the President of the USSR, which shall be made public.

18. The Chairman of the Board of Directors:

- shall preside over Board meetings and shall direct its administrative staff;
- shall make decisions within the limits of his authority in the intervals between meetings of executive bodies of the Reserve System;
- shall sign decisions of the Board of Directors;
- shall suspend operations by Reserve System banks which are in conflict with this Law;
- shall cast the deciding vote at meetings of the Board of Directors in case of a tie vote;
- shall represent the Reserve System in the USSR and abroad.

19. The members of the Board:

- shall take part in meetings of the Board of Directors with the right of determining vote;
- shall implement the policy of the Board of Directors;
- shall bring before the Board matters requiring a decision.

20. The Board of Directors:

- shall make decisions on all key matters pertaining to issuing of currency, monetary, credit, and currency policy, including economic standards and foreign-currency licenses;
- shall ratify legislative enactments the effect of which extends to all banks;
- shall approve the annual report of the Reserve System;
- shall direct and oversee the operations of the banks of the Reserve System.

21. The Board of Directors shall meet as a rule once every two months, and more frequently when necessary.

22. A Council on monetary and credit policy shall be formed under the Board of Directors, to consist of the Chairman, two deputy chairmen, and five bank directors (on the basis of semiannual rotation). This Council shall make operational decisions and shall meet once every two weeks.

Section III. Reserve System Capital, Balance, and Profit

23. The capital of the Reserve System shall consist of the capital of the central banks of the republics and shall constitute their collective property.

24. The amount of capital of each of the banks of the Reserve System shall be determined by the Board of Directors.

25. The banks of the Reserve System shall establish reserves by making contributions from profit in the amount of not less than statutory capital or 10 percent of the total money supply.

26. A decision to increase the capital of the Reserve System shall be made by the President of the USSR on the recommendation of the Board of Directors.

27. The consolidated balance of the Reserve System shall comprise the sum of balances of the banks of the Reserve System.

28. The rules and procedures of forming, balances, fiscal accounting and reporting in the Reserve System shall be ratified by the Board of Directors.

29. The Reserve System shall be exempt from all taxes, fees, and duties.

30. The profit of the Reserve System shall be defined as the sum total of the profit of the banks of the Reserve System.

31. Profit remaining after replenishing all types of reserves and covering estimated administrative costs of the Board of Directors shall go into the Banking Development Fund and the Pension Fund of the Reserve System.

32. The annual report of each bank in the Reserve System shall be certified by an accredited auditing organization.

33. The fiscal year in the Reserve System shall run from 1 January to 31 December.

34. The annual reports of the banks of the Reserve System shall be submitted to the Board of Directors on 1 April.

35. The annual report of the Reserve System shall be submitted by the Board of Directors to the President of the USSR on 15 May.

Section IV. Relations With Agencies of Government

36. The Reserve System shall constitute an independent non-governmental body. The state banks of the member states shall be removed from the jurisdiction of the governments and shall submit reports once each year to the corresponding Supreme Soviet.

37. No agency of government shall be empowered to give instructions to or exert influence on the Reserve System.

38. The Reserve System shall interact with agencies of government at all levels in implementing economic policy and shall take part in drafting economic decisions affecting monetary, credit, currency, and fiscal matters.

39. The Reserve System shall not be empowered to issue credit to agencies of government (budgets) or to purchase government securities on original issue. In a case of urgent necessity, by unanimous decision of the Board of Directors, short-term credit (up to 12 months) may be granted to agencies of government at market terms within the limits of the capital of the individual banks of the Reserve System.

40. The Reserve System shall perform cashier transactions for the union and republic budgets.

41. The Reserve System shall administer state (union and republic) internal and external debt.

42. Draft legislative enactments and other draft documents pertaining to circulation of money and to banking institutions shall be subject to preliminary consultation and coordination with the Reserve System.

Section V. USSR Monetary System

43. The ruble shall be the official unit of currency of the USSR. One ruble shall consist of 100 kopecks.

44. The ruble shall constitute the sole legal tender on the territory of the USSR. Restriction of circulation of the ruble and issue of other units of currency and money substitutes on the territory of the USSR shall be prohibited.

45. No official ruble content in gold, other precious metals or foreign currency shall be established.

46. Any decision on monetary reform, currency revaluation and other forms of total exchange of money shall be made by the USSR Supreme Soviet on the recommendation of the Reserve System and the USSR Ministry of Finance.

47. The Reserve System shall possess the exclusive and unconditional right to issue currency and to remove currency from circulation in the USSR.

48. Uniform banknotes and coins shall be issued by the banks of the Reserve System in the form of Reserve System unconditional obligations.

49. Emission of cash currency shall be done in the form of sale of banknotes and coins by banks of the Reserve System to commercial banks on demand, on receipt of corresponding non-cash equivalent. The manner and procedure of currency emission shall be established by the Board of Directors of the Reserve System.

50. The Reserve System shall issue notes in denominations of 1, 3, 5, 10, 25, 50, and 100 rubles, coins in denominations of 1, 3, and 5 rubles, and small coins in denominations of 1, 2, 3, 5, 10, 15, 20, and 50 kopecks. A decision to issue notes and coins of other denominations shall be made by the Board of Directors of the Reserve System.

51. Emission of currency in the USSR shall not be subdivided into treasury and bank issue. 1961 treasury notes shall constitute legal tender up to 1 January 2000, and shall be exchanged for banknotes without any restrictions.

52. The Board of Directors shall publicly announce withdrawal of notes of a specific kind from circulation. Withdrawn notes shall remain legal tender for a period of five years from the moment of announcement of withdrawal and may be presented for exchange for a period of an additional five years.

53. The Reserve System shall organize the manufacture, transportation, and safekeeping of bank notes and coins, shall establish cash reserve funds, and shall issue recommendations on the safekeeping and collection of currency.

54. The Reserve System shall establish the criteria, manner and procedure of determination of whether damaged currency is acceptable for payment, as well as the manner and procedure of replacing and destroying damaged notes.

55. Currency notes shall be accepted by banks without restrictions. In transactions between individuals, in retail commerce and in other cash transactions, small coins [coins in denominations of less than one ruble] shall be accepted without restrictions in an amount up to 10 rubles, while notes and coins of denominations greater than one ruble shall be accepted without restrictions in an amount up to 1000 rubles.

56. With noncash transactions, there shall be no restrictions on all types of payments.

Section VI. Monetary and Credit Regulation

57. The Reserve System shall be the principal agency implementing monetary and credit policy in the USSR.

58. Directive cash and credit planning shall be terminated in the manner and procedure and on a timetable as determined by the Reserve System, in consultation and coordination with the USSR Ministry of Finance.

59. The Reserve System shall each year, at the same time as submission of the USSR draft state budget, submit to

the USSR Supreme Soviet a report of monetary and credit policy in the preceding year and a draft plan of USSR general monetary and credit policy for the coming year.

60. The text of USSR general monetary and credit policy submitted to the USSR Supreme Soviet shall contain an analysis of future development of the monetary and credit system, taking into account economic policy and the draft union and republic budgets, optimal rates of growth of the various money supply and bank credit indices, level of interest rates and currency exchange rates, methods and means of attaining the stated goals.

61. Monetary and credit policy of the Reserve System shall promote the prevention of inflation, shall promote balancing of the economy, and shall stimulate economic activity.

Bank Reserves

62. The Reserve System may establish standard bank reserve amounts, for the purpose of affecting the rate of growth of the total money supply, volume of lending and credit, interest rates, as well as the overall economic situation.

63. The Reserve System shall specify a standard amount for bank liquid reserves in the form of a percentage of liquid assets to total assets (liabilities), including at a different level for different types of banks.

64. Bank notes and coin, Reserve System accounts, short-term negotiable government securities, and other readily-disposable short-term assets shall be considered liquid assets. The Reserve System shall establish a classification of liquid assets.

65. The required amount of liquid reserves, determined by the Reserve System by directive, may not exceed 30 percent.

Level of liquid reserves shall be figured at the end of each month (once each quarter) and shall be maintained through the course of the following month (quarter).

66. The Reserve System may establish a required amount of mandatory reserves which banks are to maintain within the Reserve System in special reserve accounts.

The required amount of mandatory reserves shall be figured at the end of each quarter as a percentage of a bank's obtained funds in rubles and foreign currency and may not exceed 25 percent. The required amount may differ, according to type of bank and obligations.

67. The Reserve System may establish a required amount that banks must maintain on deposit in a special account in the Reserve System, sums in the amount of part of the incremental growth of lending and credit and purchases of obligations in rubles and foreign currency. This required amount may differ, depending on type of

bank. This required amount is figured at the end of each quarter period and may not exceed 100 percent.

68. In extraordinary situations the Reserve System shall be empowered, with the approval of the President of the USSR, to establish a required amount of additional deposit by banks in a special account in the Reserve System, of sums in the amount of up to 100 percent of incremental growth of lending and credit in rubles and foreign currency.

Mandatory Investments

69. The President of the USSR, on the recommendation of the Reserve System and the USSR Ministry of Finance, may establish for banks, insurance companies, pension funds, and other financial and lending institutions a required amount of mandatory investments in government securities, in the form of a percentage of total assets.

70. The required amount of mandatory investments in government securities may not exceed 30 percent for banks and 50 percent for other institutions. The required amount of mandatory investments shall be determined separately for the Savings Bank [Sberbank].

The required amount of mandatory investments shall be established for a calendar year and shall be met as a quarterly-average figure.

Direct Regulation of Credit and Guaranties

71. The Reserve System may establish direct limits on the volume of lending and credit transactions and guaranties by banks and other lending institutions. Said limits may be selective in nature, depending on the type of bank, type of credit, branch of the economy, and region.

Regulation of Interest Rates

72. The Reserve System may establish a minimum and (or) maximum level of interest rates and commission on bank credit and bank deposits, depending on term and type of credit or deposit.

73. The Reserve System may establish a procedure whereby change in interest rates and amount of commission shall require the approval of the Reserve System.

74. Actions pertaining to organization of bank cartels for the purpose of fixing interest rates shall be prohibited. The Reserve System shall be empowered to stop any attempts to organize an interest-rate cartel.

75. The Reserve System shall exercise regulation of interest rates in the USSR by changing the official and other rates on its transactions with banks.

System of Refinancing Banks

76. In order to exert influence on the liquidity of the banking system, the Reserve System shall refinance

banks by extending them short-term credit at the official and other loan rates of the Reserve System.

77. First-class banking institutions with a balance of not less than one hundred million rubles, appearing on a special list, shall be entitled to obtain credit in the Reserve System.

78. The Reserve System may grant credit to banks for a period of up to three months against the following collateral (security):

- gold and other precious metals;
- foreign currency;
- promissory notes of up to six months, issued or accepted by first-class banks;
- government securities with terms of maturity of up to one year;
- commercial bonds of up to one year, appearing on the official list of securities recommended for investment.
- the Reserve System shall independently establish the terms for obtaining credit against collateral of various assets.

79. The Reserve System shall offer banks two types of credit against collateral of various assets:

- automatic credit up to the limit established by the Reserve System, at the official loan rate. This limit shall be figured on the basis of the total balance and bank-owned funds;
- special credit at terms and in an amount determined by the Reserve System in each specific instance. The interest rate on such credit shall be at least one percent higher than the official loan rate. The Reserve System may decline to grant official credit without explanation.

Transactions on the Open Market

80. In order to influence liquidity of the banking system, the Reserve System shall conduct securities transactions.

Specific Limits to Growth of the Money Supply

81. Each year the Reserve System shall specify, in its general statement of monetary and credit policy, specific limits of growth applying to various indicators pertaining to the money supply or total money in circulation for the following year or other period, in consultation and coordination with the USSR Ministry of Finance (in the form of interval values).

82. Specific limits to growth in the money supply shall form the basis for decisions by the Reserve System pertaining to implementation of monetary and credit policy.

Regulation of Assets and Liabilities Abroad

83. The Reserve System may establish specific requirements pertaining to amount of bank assets and liabilities abroad (all or individual types), as well as the ratio between assets and liabilities or separate elements.

Management of Government Debt

84. For the purpose of influencing liquidity of the banking system and the level of interest rates, the Reserve System may, in consultation and coordination with the USSR Ministry of Finance:

- determine the terms and conditions of issue of government securities;
- issue more government securities than are required to finance the state budget deficit.

Section VII. Currency Policy

85. The Reserve System shall be empowered to manage the USSR Foreign-Currency and Gold Fund.

For this purpose a foreign-currency administration, with an independent balance, shall be established under the Board of Directors.

86. The official rate of exchange between the ruble and foreign currencies shall be established by the Board of Directors of the Reserve System, proceeding from the state of the economy and this country's balance of payments.

87. The Board of Directors shall regulate the ruble exchange rate on the open market by purchasing and selling foreign currency from the USSR Foreign-Currency Fund.

88. The Reserve System shall constitute a USSR foreign-currency control and regulatory agency.

89. The Reserve System shall work in coordination with the central banks of other states and shall take part in the activities of international currency and financial organizations.

Section VIII. Operations of the Reserve System

90. The banks of the Reserve System may conduct the following operations:

- discounting notes, bills, and other monetary obligations. Bills and notes must involve a goods transaction (with term of payment not exceeding six months) and be accepted by first-class banks maintained on a special list by the Board of Directors;
- transactions pertaining to the purchase and sale of gold and other precious metals in the form of bars, nuggets, and other forms on a bank's own behalf or as an agent, as well as foreign currency. On the territory of the USSR the Reserve System shall have a monopoly right to transactions involving precious metals, other than jewelry;

- granting of short-term credit to banks against security, in conformity with articles 76-79 of this Law. No statute of limitations shall apply to claims brought by the Reserve System pertaining to granting of credit;
- granting of credit to their employees;
- purchase and sale of government securities on the secondary market, within the limits of monetary and credit regulation;
- acceptance and placement of deposits;
- acceptance of valuables for safekeeping;
- transfer of funds and other settlement transactions;
- conduct of commercial transactions on a commission basis;
- investment of funds in enterprises on the territory of the USSR and abroad;
- issue of guaranties and sureties;
- obtaining of credit and issuing of securities abroad;
- conduct of other operations with the approval of the President of the USSR, if said operations are not in conflict with this Law.

Section IX. Employees of the Reserve System

91. The terms and conditions of employment, termination of employment and compensation, duties and disciplinary penalties applying to employees of the Reserve System shall be established by the boards of directors of the corresponding banks of the Reserve System, within the framework of the general principles adopted by the Board of Directors.
92. The Board of Directors of the Reserve System may establish a Pension Fund to provide additional pension benefits for employees of the Reserve System.
93. Employees of the Reserve System may not hold more than one job concurrently, may not hold an agreement of services or contract of employment with commercial organizations, and may not receive any compensation from legal entities or natural persons, other than royalties or fees for publications and speeches or other appearances.
94. Employees of the Reserve System may obtain credit only within the Reserve System.
95. Employees of the Reserve System shall not disclose official or confidential information obtained in the performance of their official duties.

Section X. Banking Oversight and Supervision

96. The Reserve System shall constitute an agency of governmental oversight and supervision over banking activities.

97. The Reserve System shall license, for the conduct of banking operations, joint-stock companies and cooperatives possessing capital stock of not less than 500,000 rubles.

98. To obtain a license, the founders of a new joint-stock company, or an existing joint-stock company, or a cooperative shall send to the local Reserve System bank by registered letter a notarized application containing the name of the bank, its official location, the purposes for establishing the bank, the names and addresses of the founders, their financial liability, and information on the professional suitability of the bank's officers.

Applicants shall append to the application a copy of the bank's Bylaws, ratified by a meeting of the stockholders or shareholders, and a copy of the record of proceedings of this meeting. The Bylaws shall be drawn up on the basis of laws pertaining to corporations and joint-stock companies as well as recommendations of the Reserve System.

99. An application for a banking license shall be considered within 60 days. Notice of rejection or approval shall be sent by registered letter.

100. For establishment of a joint-stock or cooperative bank with the participation of foreign legal entities and natural persons in excess of 10 percent of capital, the following additional documents shall be required:

for founding participants—legal entities:

- a) Bylaws or other document confirming their legal status, as well as the published balance sheet for the three preceding years;
- b) decision by the appropriate agency of the foreign founding participant to participate in a bank in the USSR;
- c) a written statement from a supervisory oversight agency of the country of origin of the foreign founding participant declaring that said agency has no objection to his participation in a bank on the territory of the USSR, or a statement by an authorized official agency or legal service to the effect that such permission is not required by the laws of the country of origin of the participating founder;

for founding participants—natural persons:

- a) a statement of solvency from a reputable bank;
- b) letters of recommendation from two legal entities or natural persons known to be financially solvent.

101. Commercial banks must inform the Reserve System of changes made in their Bylaws.

102. The banks of the Reserve System shall maintain registers of commercial banks on the territory of the corresponding states. The Board of Directors shall maintain a master register of banks in the USSR.

103. Commercial banks may engage in soliciting, obtaining, and placing deposits and loans, guaranties and sureties, transactions involving bills of exchange, factoring and leasing, settlements, remittance and transfer of funds, safekeeping of valuables, commission transactions, and other operations permitted by the Reserve System.

Currency transactions (status of authorized bank) may be conducted under the condition that a special license has been obtained from the Reserve System and other currency control agencies.

Brokering transactions involving securities and other negotiable instruments may be conducted under the condition of obtaining a special license from the Reserve System and fiscal authorities.

104. The Reserve System shall establish rules and regulations pertaining to accounting and reporting procedures at commercial banks.

105. Commercial banks shall submit to the banks of the Reserve System statistical and other information in the form and at the times specified by the Board of Directors. Information obtained in the course of banking oversight and supervision shall be treated as confidential.

106. The banks of the Reserve System shall be empowered, if there are grounds to do so, to authorize inspection of the accounting records and documentation of a corresponding commercial bank.

107. In order to ensure stable operations and to protect the interests of clients, commercial banks must observe the following economic requirements established by the Reserve System:

- a) ratio of bank-owned funds, assets and liabilities;
- b) maximum loan or credit per borrower;
- c) bank balance liquidity indicators;
- d) mandatory reserves.

108. The Reserve System may establish a minimum amount of commercial bank funds (free-and-clear capital plus reserves) in relation to:

- granted credit, investments, and other assets;
- exposed positions in foreign currencies;
- liabilities;
- other balance-sheet items.

109. The Reserve System shall publish standard determinations of assets and liabilities, including those not pertaining to a bank's own balance sheet, capital, reserves, bank-owned funds, risks, positions (covered and exposed, open and closed), and bank investments.

110. Maximum credit per borrower (total credit and guaranties) shall be established by the Reserve System in the amount of 10 percent of total bank-owned assets.

111. Commercial banks may not, without the consent of the corresponding Reserve System bank:

- reduce the amount of bank-owned assets by paying out capital stock and distribution of reserves among stockholders;
- acquire controlling blocks of stock (50 percent plus one share) of corporations and joint-stock companies;
- merge with other organizations;
- acquire more than 50 percent of the assets and liabilities of other organizations;
- engage in real-estate brokering and investment transactions.

A Reserve System bank, in response to a written request, shall give written notification of approval or disapproval for the conduct of activities as listed above, by registered letter.

112. The Reserve System shall establish the manner and procedure of forming insurance and reserve funds from bank profit.

113. The Reserve System shall be empowered to issue directives instructing banks to observe the requirements indicated above, prohibiting or restricting certain types of transactions or operations, the magnitude of such transactions, time terms, and other terms and conditions.

Section XI. Settlement of Accounts

114. The Reserve System shall organize a uniform system of interbank clearing settlement of accounts in the USSR.

115. Banks of the Reserve System shall open accounts for commercial banks for the purpose of clearing settlement of accounts.

116. The computer centers of the former USSR Gosbank shall constitute the collective property of the Reserve System.

Section XII. Information and Statistics

117. The Reserve System shall collect and regularly publish summary statistics on the amount of cash in circulation, on the total money supply, currency exchange rates, its own balance, and the banking system balance.

118. The Reserve System shall publish a system annual report and monthly analytical journal.

Section XIII. Dissolution of the Reserve System

119. The Reserve System shall be dissolved on agreement among all member states or if fewer than three members remain in the system.

Section XIV. Monitoring of Compliance With This Law

120. The Reserve System shall be empowered to monitor compliance with this Law and execution of decisions adopted in implementation of this Law.

121. In case of violation of the state currency emission monopoly, monetary and credit standards and requirements, as well as other provisions of this Law, the Reserve System shall be empowered:

- to prescribe timetables, deadlines, and other terms and conditions for correcting or eliminating violations;
- to confiscate illegally issued currency and surrogates;
- to seize accounts;
- to propose to a bank's stockholders or shareholders that changes be made to improve the bank's financial health, that it be reorganized, or that the bank's officers be replaced;
- to recall banking and other licenses;
- to institute legal or other proceedings to terminate the existence of a given organization;
- to impose fines on banks and their employees;
- to require that income obtained as a result of failure to maintain required standard amounts be remitted as revenue to the union budget;
- to remove a bank's officers and appoint temporary administrative officers.

122. The rules and procedures of applying the above and other sanctions and penalties, determined by specific circumstances, shall be established by the Reserve System in consultation and coordination with the USSR Ministry of Finance and other government regulatory agencies.

123. Counterfeiting the currency of the Reserve System shall constitute a criminal act and shall be punishable by law.

Draft Law of the Russian Soviet Federative Socialist Republic on the Monetary System of the RSFSR

Section I. General Provisions

1. The monetary system of the RSFSR shall include an official unit of currency, manner and procedure of cash and noncash (by deposit) currency emission, and a state monetary, credit, and currency regulatory agency.

2. The ruble shall be the official unit of currency of the RSFSR.

3. One ruble shall consist of 100 kopecks.

4. The ruble shall be the sole legal tender in any form on the territory of the RSFSR, with the exception of foreign-trade transactions. Restriction of circulation of the ruble on the territory of the RSFSR shall be prohibited.

5. Emission of other currency and monetary surrogates (substitutes) shall be prohibited.

6. An official ruble content in gold, other precious metals, or foreign currency shall not be established by law.

7. Payments in foreign currency on the territory of the RSFSR, with the exception of foreign-trade transactions, may be made only with the permission of and in a manner prescribed by the Ministry of Finance and RSFSR Gosbank [State Bank].

Section II. Emission of Currency

8. RSFSR Gosbank, as an emission bank, shall possess the exclusive and unconditional right to issue currency and remove currency from circulation in the RSFSR.

9. Bank notes shall be issued in the form of unconditional obligations of RSFSR Gosbank, as a full-faith obligation, and bearing the signatures of the Director and one of the managing directors of RSFSR Gosbank.

10. Bank notes and coin issued by RSFSR Gosbank must be accepted as tender by all organizations and individuals on the territory of the RSFSR.

11. The amount of money in circulation shall be defined as the total amount of issued currency minus cash in the cash drawers and vaults of RSFSR Gosbank institutions.

12. It shall be prohibited to use currency issue for the purpose of financing RSFSR State Budget expenditures.

13. Issue of currency shall be conducted in the form of sale of bank notes and coin by RSFSR Gosbank institutions to commercial and other banks on demand, debiting the amount to their accounts. The manner and procedure of issuing currency shall be established by RSFSR Gosbank.

14. The balance of emission department of RSFSR Gosbank shall be maintained separately from the balance of the other subdivisions.

15. Funds obtained by RSFSR Gosbank from the sale of currency to banks shall be utilized in their entirety to purchase precious metals in the form of bars and coin, convertible foreign currency, and high-grade securities maturing in not more than five years (the latter only through the secondary market).

16. RSFSR Gosbank shall be authorized to issue bank notes in denominations of 1, 3, 5, 10, 25, 50, and 100

rubles, coins in denominations of 1, 3, and 5 rubles, and small coins in denominations of 1, 2, 3, 5, 10, 15, 20, and 50 kopecks.

17. A decision to issue bank notes and coins of other denominations shall be made by the RSFSR State Bank in consultation and coordination with the RSFSR Ministry of Finance.

18. The design of bank notes and coins shall be determined by RSFSR Gosbank.

RSFSR Gosbank shall be authorized, when needed, to issue bank notes of a new design, with gradual withdrawal of the old money from circulation.

19. RSFSR Gosbank shall be authorized, in consultation and coordination with the RSFSR Ministry of Finance, to issue commemorative coins no more frequently than twice each year.

20. RSFSR Gosbank shall be authorized, in consultation and coordination with the RSFSR Ministry of Finance, to issue coins made of precious metals for purchase by collectors and savers of items of value. Such coins shall constitute legal tender at their face value.

21. Currency emission in the RSFSR shall not be divided into treasury and bank issue.

22. Treasury notes and bank notes issued from 1961 shall constitute legal tender up to 1 January 2000 and may be exchanged without restrictions or limitations for RSFSR Gosbank notes.

23. RSFSR Gosbank shall place notices in the newspapers announcing the retirement from circulation of a specified kind of currency. Retired currency shall remain legal tender for a period of five years from the official notice of retirement, and for a period of an additional five years may be presented to the Gosbank for exchange. Amounts equivalent to currency not presented for exchange prior to the 10-year deadline shall be credited toward paying off the RSFSR state debt.

24. RSFSR Gosbank shall organize the manufacture, transportation and safekeeping of bank notes and coin, and shall establish currency reserve funds.

25. RSFSR Gosbank shall establish the criteria and procedure for determining whether damaged currency is acceptable for payment, as well as the manner and procedure of replacement and destruction of damaged currency.

26. RSFSR Gosbank shall issue recommendations on the safekeeping and collection of currency in the banking system and throughout the economy.

Section III. Emission by Deposit (Currency Issue by Account Entry)

27. Emission by deposit (currency issue by account entry) shall be performed in the process of bank credit

transactions. RSFSR Gosbank shall control emission by deposit by means of monetary and credit policy.

28. It shall be prohibited to utilize emission by deposit in the form of credit to the state and purchase of government securities to finance RSFSR State Budget expenditures. This matter shall be governed by the RSFSR Law on the RSFSR State Bank and the Law on RSFSR Government Debt.

Section IV. The Money Supply

29. The money supply or total money in circulation shall be defined as the total amount of money in circulation, deposit in RSFSR Gosbank (monetary base), funds in bank accounts, and other unconditional monetary obligations.

30. RSFSR Gosbank shall devise a methodology of determining and shall publish figures on the total amount of money in circulation.

Section V. Settlement of Accounts

31. Cash shall be accepted by banks without restrictions.

32. In settlement of accounts between individuals, in retail commerce and in other cash payments, small coins shall be accepted without restrictions in an amount up to 10 rubles; bank notes and coins in denominations greater than one ruble shall be accepted in a sum up to 1000 rubles.

33. Noncash transactions shall be performed without restrictions for all types of payments.

34. RSFSR Gosbank institutions shall change and exchange bank notes and coins without restrictions for individuals and organizations, guided by the rules determining whether damaged currency is acceptable for payment.

35. RSFSR Gosbank shall organize an RSFSR system of interbank clearing settlement of accounts.

Section VI. Monetary and Credit Regulation

36. RSFSR Gosbank shall constitute the principal monetary and credit system regulatory agency, operating on the basis of the RSFSR Law on the RSFSR Gosbank and the Law on Monetary and Credit Regulation in the RSFSR. It shall bear responsibility for stability of the ruble's purchasing power and exchange rate.

37. A decision pertaining to currency reform, revaluation of currency, and other forms of total exchange of currency shall be made by the RSFSR Supreme Soviet on the recommendation of RSFSR Gosbank and the RSFSR Ministry of Finance.

Section VII. Information

38. RSFSR Gosbank shall no less frequently than once each month publish figures on the total amount of money in circulation, the total money supply, and on currency exchange rates.

Section VIII. Monitoring Compliance With This Law

39. RSFSR Gosbank shall be empowered to monitor compliance with this Law as well as implementation of decisions adopted in execution of this Law.

40. In case of violation of articles 5, 7, or 9 of this Law, RSFSR Gosbank shall be empowered to confiscate illegally issued currency and substitutes, to cancel banking licenses, and to take legal or other measures pertaining to securing termination of activities by a given organization, levying fines, or bringing criminal charges.

41. The rules and procedures for application of these and other sanctions and penalties shall be established by RSFSR Gosbank in consultation and coordination with the RSFSR Ministry of Finance.

42. Counterfeiting of RSFSR Gosbank currency shall constitute a criminal offense and shall be punishable by law.

Section IX. Relations With Other States

43. In such case as the RSFSR establishes an economic union with other states, the functions assigned by this Law to the RSFSR State Bank and to other RSFSR governmental bodies shall be carried out on the basis of the USSR Law on the Reserve System of the RSFSR.

Section X. Entry of This Law Into Force

44. This Law shall enter into force concurrently with the RSFSR Law on RSFSR Gosbank, the Law on Banks in the RSFSR, and the Law on Monetary and Credit Regulation in the RSFSR.

**Draft Law of the Russian Soviet Federative
Socialist Republic on Monetary and Credit
Regulation in the RSFSR**

Section I. General Provisions

1. The RSFSR State Bank (RSFSR Gosbank), the republic's Central Bank, operating on the basis of laws of the RSFSR, shall constitute the monetary and credit regulatory agency in the RSFSR.

2. Pursuant to this Law, RSFSR Gosbank shall be empowered to set required amounts for bank liquidity and reserves, directly and indirectly to regulate the credit and deposit activities of banks and other financial and lending institutions, to specify maximum interest rates on loans and deposits, to conduct various operations and other actions directed toward implementation of government monetary and credit policy.

3. In order to carry out its monetary and credit regulatory functions, RSFSR Gosbank shall work in coordination with the RSFSR Ministry of Finance and other governmental agencies empowered to perform regulatory functions in the areas of money and credit, finance and foreign currency exchange.

4. RSFSR Gosbank shall submit to the RSFSR Supreme Soviet each year a report on monetary and credit policy in the preceding year (concurrently with its annual report) and a draft general statement on RSFSR monetary and credit policy in the coming year (concurrently with submission of the Draft RSFSR State Budget).

5. The text of the general statement on RSFSR monetary and credit policy submitted to the RSFSR Supreme Soviet shall contain an analysis of future development of the RSFSR monetary and credit system, taking into consideration economic policy of the Government of the RSFSR and the draft RSFSR State Budget, optimal rates of growth for various money-supply and bank credit indicators, level of interest rates and currency exchange rate, methods and means of attaining the stated goals.

6. Directive cash and credit planning in the RSFSR shall be abolished in the manner, procedure and timeframe specified by RSFSR Gosbank, in consultation and coordination with the RSFSR Ministry of Finance.

Section II. Bank Reserves

7. In order to influence the rate of growth of the money supply, volume of credit, and level of interest rates, RSFSR Gosbank may establish required amounts for bank reserves.

8. RSFSR Gosbank may establish a required amount of bank liquid reserves in the form of a percentage ratio of liquid assets to total assets, including at a different level for different types of banks.

Bank notes and coin, accounts (except for reserve accounts) in RSFSR Gosbank, short-term negotiable government securities, and other readily-disposable short-term assets shall be considered liquid assets. RSFSR Gosbank shall establish a classification of liquid assets.

The required amount of liquid reserves established by directive of RSFSR Gosbank may not exceed 30 percent.

The level of liquid reserves shall be figured at the end of each month (quarter) and shall be maintained through the following month (quarter).

9. RSFSR Gosbank shall establish the amount of mandatory reserves which banks shall maintain in RSFSR Gosbank in special reserve accounts.

The amount of mandatory reserves shall be figured at the end of each quarter as a percentage of obtained bank funds in rubles and foreign currency and may not exceed 25 percent. A different mandatory amount may be specified for different types of banks and obligations.

10. RSFSR Gosbank may set a required figure for banks to maintain on deposit in a special account in RSFSR Gosbank in the amount of part of incremental growth of credit and purchases of bonds in rubles and foreign currency.

This required amount shall be figured at the end of each quarter and may not exceed 100 percent.

The required amount may be differentiated by type of bank.

11. In extraordinary situations RSFSR Gosbank shall be empowered, with the approval of the Chairman of the RSFSR Supreme Soviet, to establish requisite amounts of additional deposit by banks in a special account in RSFSR Gosbank, of sums in the amount of 100 percent of incremental growth of credit in rubles and foreign currency.

Section III. Mandatory Investments

12. RSFSR Gosbank, in consultation and coordination with the RSFSR Ministry of Finance, may establish for banks, insurance companies, pension funds, and other financial and lending institutions a mandatory amount to be invested in government securities.

13. The amount of mandatory investment in government securities may not exceed 30 percent of total assets for banks and insurance institutions (with the exception of the RSFSR Savings Bank) and [number illegible] percent for other institutions.

14. A mandatory investment amount shall be determined on an individual basis for the RSFSR Savings Bank.

15. The amount of mandatory investment shall be established for a calendar year and shall be met as a quarterly-average figure.

16. RSFSR Gosbank, in consultation and coordination with the RSFSR Ministry of Finance, may establish that investments in ownership shares of converted state enterprises shall count toward mandatory investments in government securities.

Section IV. Direct Regulation of Credit and Guaranties

17. In extraordinary situations RSFSR Gosbank, with the approval of the Chairman of the RSFSR Supreme Soviet, may establish direct restrictions on the volume of lending and credit operations and guaranties by banks and other financial and lending institutions.

18. RSFSR Gosbank direct restrictions on volume of credit and guaranties may be selective in nature, depending on the type of bank, type of credit, branch of the economy, and region.

19. RSFSR Gosbank may issue credit guaranties and subsidize interest rates for the purpose of stimulating the granting of credit to specific branches of the economy.

Section V. Regulation of Interest Rates

20. RSFSR Gosbank may, when necessary, establish a maximum level of interest rates and commission on bank credit and deposits, depending on length of time and type.

21. RSFSR Gosbank may establish a procedure whereby change in interest rates and amount of commission will require the approval of RSFSR Gosbank.

22. Bank cartels established for the purpose of fixing interest rates shall be prohibited.

23. RSFSR Gosbank shall exercise regulation of interest rates in the RSFSR by changing the official rate and other rates applying to its transactions with other banks.

Section VI. System of Refinancing

24. For the purpose of influencing liquidity of the banking system, RSFSR Gosbank shall refinance banks by granting them short-term credit at the official rate and at other loan rates of RSFSR Gosbank.

25. First-class banking institutions with a balance of not less than 100 million rubles, placed on a special list approved by the Director of RSFSR Gosbank, shall be entitled to obtain credit from RSFSR Gosbank.

26. RSFSR Gosbank may grant banks credit for up to three months against the following collateral (security):

—gold and other precious metals;

—foreign currency;

—promissory notes of up to six months, issued or accepted by banks contained on the list mentioned in Article 25;

—negotiable instruments with maturity dates of up to one year, issued by the Government of the RSFSR;

—commercial bonds with maturity dates of up to one year, which appear on the official list of securities recommended by the RSFSR Ministry of Finance for investment.

RSFSR Gosbank shall independently establish conditions and terms of granting credit against various assets as collateral.

27. RSFSR Gosbank shall offer banks two types of secured credit:

—automatic credit within the amount specified by RSFSR Gosbank at the official loan interest rate. The credit amount shall be figured on the basis of total balance and bank assets;

—special credit on terms and in an amount to be specified by RSFSR Gosbank in each specific instance. The interest rate on such credit shall be at least one percent higher than the official loan interest

rate. RSFSR Gosbank may decline to grant special credit without explanation.

Section VII. Transactions in the Open Market

28. For the purpose of influencing liquidity of the banking system, RSFSR Gosbank shall conduct securities transactions pursuant to the RSFSR Law on RSFSR Gosbank.

Section VIII. Recommendations of RSFSR Gosbank

29. In the interests of carrying out its functions, RSFSR Gosbank may publicly state its views on major issues of monetary, credit and economic policy and may recommend that banks refrain from taking certain actions.

Section IX. Specific Limits to Growth of the Money Supply

30. RSFSR Gosbank shall each year, in its general statement of monetary and credit policy, establish specific limits on growth of various indicators of total money in circulation for the following year or for another period in consultation and coordination with the RSFSR Ministry of Finance (in the form of interval values).

31. Specific limits on growth of total money in circulation shall serve as a basis for RSFSR Gosbank to make decisions in the exercise of monetary and credit policy.

32. In case of an extraordinary economic situation, the Chairman of the RSFSR Supreme Soviet may give the specific limits on growth of total money in circulation directive power.

Section X. Regulation of Assets and Liabilities Abroad

33. RSFSR Gosbank may establish specific requirements pertaining to amount of banks' assets and liabilities abroad (of all types or certain types), the ratio of assets to liabilities, or individual elements.

Section XI. Verification of Compliance with the Law

34. RSFSR Gosbank shall be empowered to monitor compliance with this Law as well as compliance with decisions made in implementation of this Law.

35. Upon discovering violations of the standards and requirements established pursuant to articles 8, 9, 10, 11, 13, 14, and 17 of this Law, RSFSR Gosbank shall compel a corresponding financial and credit institution to pay interest into RSFSR State Budget revenues on the amount of violation for the period in which the violation occurred.

The rules and procedures for charging penalty interest shall be established by RSFSR Gosbank.

36. Upon discovery of deliberate violations of the requirements of articles 20, 21, 22, 28, and 33 and repeated violations as listed in Article 35, RSFSR Gosbank shall be empowered to impose fines both on

financial and credit institutions and on their employees. The amounts of levied fines shall be remitted as RSFSR State Budget revenue.

The rules, procedures and amounts of fines shall be established by RSFSR Gosbank in consultation and coordination with the RSFSR Ministry of Finance.

37. In case of systematic deliberate violation of the provisions of this Law, RSFSR Gosbank shall be authorized to undertake measures to reorganize a bank or to withdraw a bank's license, pursuant to the RSFSR Law on the RSFSR State Bank and the Law on Banks in the RSFSR.

Section XII. Relations With Other States

38. In such case as the RSFSR enters into an economic union with other states, the functions assigned by this Law to RSFSR Gosbank and to other RSFSR governmental agencies shall be carried out on the basis of the USSR Law on the Reserve System of the RSFSR.

Draft Law of the Russian Soviet Federative Socialist Republic on the RSFSR State Bank

Section I. General Provisions

1. The RSFSR State Bank (RSFSR Gosbank) shall constitute the central bank of the RSFSR and shall be the property of the RSFSR.

2. The principal tasks and functions of RSFSR Gosbank shall be to regulate the circulation of money, loan and credit transactions, transactions between the RSFSR and other states, to ensure the ruble's stable purchasing power and rate of exchange with foreign currencies, to oversee the activities of commercial banks, and to organize the system of settlement of accounts between banks.

3. RSFSR Gosbank shall be guided in its activities by this Law and by other RSFSR laws.

RSFSR Gosbank shall be accountable to the RSFSR Supreme Soviet.

4. RSFSR Gosbank shall not be responsible for state obligations with the exception of those cases prescribed by the Law. The state shall not be responsible for the obligations of RSFSR Gosbank.

5. RSFSR Gosbank shall issue directives, which shall be binding on all banks in the RSFSR, on matters coming under its jurisdiction.

6. RSFSR Gosbank may take part in the activities of international organizations which engage in monetary, credit, and currency operations.

7. RSFSR Gosbank shall be headquartered in Moscow.

8. RSFSR Gosbank and its institutions shall have a seal bearing the state emblem of the RSFSR and its name.

Section II. Capital of RSFSR Gosbank

9. RSFSR Gosbank shall possess statutory capital in the amount of three billion rubles.

10. The statutory capital of RSFSR Gosbank shall belong to the state and shall be maintained on the balance sheet of the RSFSR Ministry of Finance or other agency authorized by the RSFSR Supreme Soviet to administer state property.

11. A decision to alter the statutory capital of RSFSR Gosbank shall be made by the RSFSR Supreme Soviet on the recommendation of the Board of Directors of RSFSR Gosbank.

12. RSFSR Gosbank shall establish reserves by making contributions from profit in the amount of not less than its statutory capital.

Section III. Functions of RSFSR Gosbank

13. RSFSR Gosbank shall possess the monopoly right to issue currency on the territory of the RSFSR.

14. RSFSR Gosbank shall provide banking services for the Government of the RSFSR and other governmental agencies and bodies.

15. RSFSR Gosbank shall implement the monetary and credit policy of the RSFSR.

16. RSFSR Gosbank shall organize settlement of accounts between banks in the RSFSR.

17. RSFSR Gosbank shall function as a supervisory agency overseeing banking activities.

18. RSFSR Gosbank shall implement the currency policy of the RSFSR.

Section IV. Relations With the Government of the RSFSR

19. For exercise of its assigned functions, RSFSR Gosbank shall take part in determining the economic policy of the Government to the extent of the authority established by this Law. The Director of RSFSR Gosbank and his deputy shall be entitled to take part in the activities of the Government of the RSFSR, in a consultative and advisory capacity.

20. RSFSR Gosbank shall be autonomous in its activities to the extent of its statutory authorities. Agencies of legislative and executive authority are not empowered to intervene in the activities of RSFSR Gosbank pertaining to exercise of those authorities articulated in the law.

In case of an attempt at wrongful interference in its activities, the RSFSR may appeal such actions before the RSFSR Supreme Court.

21. The Government of the RSFSR may suspend decisions of RSFSR Gosbank for up to two weeks, until the issue has been settled or a decision has been made by the RSFSR Supreme Soviet.

22. RSFSR Gosbank shall support economic measures by the Government of the RSFSR if they are not in conflict with performance of its functions as an institution ensuring stable purchasing power for the ruble.

23. The Government of the RSFSR and RSFSR Gosbank shall inform one another on proposed measures and shall endeavor to coordinate actions.

24. RSFSR Gosbank shall be prohibited from extending credit to the Government of the RSFSR (RSFSR Ministry of Finance) for the purpose of financing a State Budget deficit or for the purchase of government securities during their primary placement.

25. In extraordinary situations the Chairman of the RSFSR Supreme Soviet may authorize RSFSR Gosbank to extend to the Government of the RSFSR (RSFSR Ministry of Finance) credit for a period of up to 12 months, in an amount not to exceed five billion rubles.

26. RSFSR Gosbank shall provide full banking services free of charge to the Government of the RSFSR (RSFSR Ministry of Finance), which shall include cashier transactions for the republic budget, settlement of accounts, and other operations. All government funds shall be kept in non-interest-bearing accounts in RSFSR Gosbank.

27. RSFSR Gosbank, on behalf of the Government of the RSFSR and in consultation and coordination with the RSFSR Ministry of Finance, shall administer, free of charge, state domestic and foreign debt, conducting operations connected with the placement of government securities, payment of interest, refinancing and paying off loans.

28. RSFSR Gosbank authorities pertaining to administration of government debt shall be defined by the RSFSR Law on RSFSR Government Debt.

29. RSFSR Gosbank, on behalf of the Government of the RSFSR and in consultation and coordination with the RSFSR Ministry of Finance, shall administer RSFSR official gold and hard-currency reserves.

30. RSFSR Gosbank and its institutions shall be exempt from payment of all types of taxes, charges, fees, duties and imposts (including stamp-tax fees and customs duties).

31. Oversight of the activities of RSFSR Gosbank shall be exercised by the appropriate committee of the RSFSR Supreme Soviet.

32. Draft legislative enactments and other documents brought before the RSFSR Supreme Soviet and Government of the RSFSR which pertain to banks shall be subject to preliminary consultation and coordination with RSFSR Gosbank.

Section V. Issue of Currency

33. RSFSR Gosbank shall have a monopoly right to the issue and retirement from circulation of currency in the RSFSR.

34. Notes and coins issued by RSFSR Gosbank shall be accepted as legal tender by all organizations and individuals on the territory of the RSFSR.

35. Issue of currency shall be in the form of sale of notes and coins to banks in exchange for the non-cash equivalent.

36. The manner and procedure of emission of cash currency shall be established by RSFSR Gosbank in conformity with the RSFSR Law on the Monetary System of the RSFSR.

Section VI. Monetary and Credit Regulation

37. RSFSR Gosbank shall constitute the principal agency of governmental monetary and credit regulation in the RSFSR.

38. RSFSR Gosbank shall utilize instruments of monetary and credit regulation for the purpose of ensuring a stable purchasing power and exchange rate of the ruble, dynamic and balanced economic development of the RSFSR.

39. RSFSR Gosbank may utilize the following instruments for purposes of monetary and credit regulation:

- required standards for liquidity;
- required standards for mandatory reserves;
- required standards for deposit in RSFSR Gosbank of part or all of lending and credit volume incremental growth;
- required standards for mandatory investments in government securities;
- direct regulation of volume of lending, credit, and guaranties;
- direct regulation of level of interest rates and commission fees for banking services;
- system of bank refinancing;
- securities and foreign-currency transactions.

40. Utilization of instruments of monetary and credit regulation shall be defined by the RSFSR Law on RSFSR Monetary and Credit Regulation.

Section VII. Settlement of Accounts Between Banks

41. RSFSR Gosbank shall organize settlement of accounts between banks in the RSFSR by having banks establish current accounts or by the establishment of clearinghouses.

Section VIII. Banking Oversight and Supervision

42. RSFSR Gosbank shall be empowered to exercise oversight and supervision over banks on the territory of the RSFSR, in order to ensure that they do not operate at a loss, and to protect the interest of their customers.

43. RSFSR Gosbank shall issue licenses for banking activities and shall establish the manner and procedure of obtaining such licenses.

44. Within the framework of the system of banking oversight and supervision, RSFSR Gosbank shall determine the manner and procedure of determining a balance, accounting and reporting procedures at banks, and shall establish standard definitions of capital, reserves, assets and liabilities, risks, and rules and procedures for the conduct of banking operations.

45. RSFSR Gosbank shall establish the following mandatory standards for banks:

- ratio of bank-owned funds to borrowed funds;
- ratio of bank-owned funds to bank assets;
- bank liquidity;
- maximum risk per borrower.

46. RSFSR Gosbank shall establish the manner and procedure of forming bank reserve funds.

47. RSFSR Gosbank shall establish requirements pertaining to quality of bank management.

48. The system of banking oversight and supervision shall be governed by the RSFSR Law on Banks in the RSFSR.

Section IX. External Economic Activities

49. RSFSR Gosbank shall be that agency which implements RSFSR currency policy.

50. RSFSR Gosbank shall establish the official exchange rate of the ruble vis-a-vis foreign currencies and may independently change the rate within limits of five percent within any one quarter. More substantial changes in the official ruble exchange rate must be approved by the Government of the RSFSR.

51. RSFSR Gosbank shall maintain the ruble exchange rate on the open market by means of transactions involving the purchase and sale of foreign currency.

52. RSFSR Gosbank shall manage and administer the official gold and hard-currency reserves of the RSFSR.

53. RSFSR Gosbank shall serve as a currency oversight agency and shall monitor compliance with currency laws pursuant to the RSFSR Law on Currency Control in the RSFSR.

54. RSFSR Gosbank shall represent the interests of the RSFSR in relations with the central banks of other states,

with international banks and other financial and lending institutions where intergovernmental cooperation is prescribed at the central-bank level.

Section X. Operations of RSFSR Gosbank

55. RSFSR Gosbank may conduct the following operations in performing its functions:

- 1) discounting of notes, bills, and other monetary obligations;
- 2) operations involving the purchase and sale of gold, other precious metals, and foreign currency;
- 3) offering short-term secured credit;
- 4) purchase and sale of government securities on the secondary market within the framework of exercising monetary and credit regulation;
- 5) receiving and placement of deposits;
- 6) acceptance of valuables for safekeeping;
- 7) transfer of funds, remittance, and other settlement transactions;
- 8) conduct of commercial transactions on a commission basis;
- 9) investment of funds in enterprises on the territory of the RSFSR and abroad;
- 10) issuing of guaranties and sureties;
- 11) securing of credit and issue of securities abroad;
- 12) performance of other operations with the approval of the RSFSR Supreme Soviet, if such operations are not in conflict with this Law.

1) Discounting Operations

56. RSFSR Gosbank may discount bills of exchange and promissory notes presented to it by banks. Such bills or notes must involve a goods transaction (not more than six months in term) and bear the acceptance of first-class banks contained on a special list on the basis of the RSFSR Law on Monetary and Credit Regulation in the RSFSR.

57. Discount transactions shall be conducted at the official discount rate or at rates determined by contractual agreement.

2) Transactions Involving Precious Metals and Foreign Currency

58. RSFSR Gosbank may purchase and sell, in the RSFSR and abroad, gold and other precious metals in bars, coin, nuggets, and other forms, on its own behalf and on behalf of the Government of the RSFSR and other organizations.

59. On the territory of the RSFSR, RSFSR Gosbank shall have a monopoly right to transactions involving precious metals, with the exception of jewelry.

60. RSFSR Gosbank may buy and sell foreign currency in the RSFSR and abroad, including in the form of bank notes, coin, instruments of payment, on its own behalf and on the instructions of the Government of the RSFSR and other organizations, primarily for the purpose of maintaining the ruble exchange rate and achieving other currency policy objectives.

3) Credit Operations

61. RSFSR Gosbank may grant credit to banks contained on the special list, for a term of up to three months, secured by gold and other precious metals, foreign currency, bills and notes of up to six months and bearing the endorsement of a bank from the above-mentioned list, securities maturing in one year or less, issued by the Government of the RSFSR, governments of union republics, governments of OECD member nations, bonds issued by legal entities with a maturity of one year or less, placed by RSFSR governmental agencies on the list of securities recommended for investment.

62. RSFSR Gosbank shall grant credit within the limits of a specified amount at the official loan interest rate, and above a specified amount at a contractually-agreed rate that is at least one percent above the official rate.

63. Access to RSFSR Gosbank credit shall be governed by the RSFSR Law on Monetary and Credit Regulation in the RSFSR.

64. Upon failure to make timely repayment, RSFSR Gosbank may sell part or all the collateral to meet credit claims and to cover all other expenses.

65. There shall be no limitation to claims brought by RSFSR Gosbank in regard to repayment of credit.

66. RSFSR Gosbank shall offer credit to its employees and managing directors.

4) Securities Transactions

67. RSFSR Gosbank, in the implementation of monetary, credit and currency policy, may purchase and sell the following on the secondary market:

- fixed-interest-rate bonds issued or guarantied by the Government of the RSFSR, and by government agencies at various levels, if they have been officially approved for price quoting on securities exchanges;
- short- and medium-term securities issued by the Government of the RSFSR;
- other securities recognized by the Board of Directors of RSFSR Gosbank as suitable for securing credit.

68. RSFSR Gosbank may purchase and sell securities under terms stipulating repurchase after a specified period of time.

69. Purchase of securities issued by the Government of the RSFSR and other government agencies may not be done for the purpose of rendering them financial assistance.

70. RSFSR Gosbank may issue its own bonds.

5) Deposit Transactions

71. RSFSR Gosbank may secure and place deposits in rubles and in foreign currency in banks in the RSFSR and abroad.

72. In transactions with foreign banks involving placement of hard-currency reserves, RSFSR Gosbank shall be guided by market conditions.

73. RSFSR Gosbank may open current accounts for its employees and other natural persons and legal entities.

6) Safeguarding Valuables

74. RSFSR Gosbank, pursuant to the rules and regulations ratified by the Board of Directors, may accept precious metals, cash, securities, and other negotiable instruments, and documents for safekeeping. In the case of securities, RSFSR Gosbank may assume the service of receiving interest and dividends and presenting instruments for repayment.

7) Settlement of Accounts

75. RSFSR Gosbank shall open non-interest-bearing accounts for banks for the purpose of performing clearing settlement of accounts.

76. For the purpose of handling settlement of accounts between banks, RSFSR Gosbank may establish clearing-houses at its main office and branch offices.

77. Holders of current accounts at RSFSR Gosbank may write checks on these accounts.

8) Commission Transactions

78. RSFSR Gosbank may, on a commission basis, conduct for the Government of the RSFSR and other agencies of government the purchase and sale of various assets, collection of payments, and other services.

9) Investments

79. For purposes of implementation of monetary, credit, and currency policy, maintaining stability of the banking system, development of international ties and improvement of its own activities, RSFSR Gosbank may invest funds in banks and other institutions in the RSFSR and abroad, in rubles and in any other currency.

10) Guaranties

80. RSFSR Gosbank, in order to carry out its functions, may issue guaranties on loans, credit and other monetary obligations, in any currency, both in the RSFSR and abroad, and RSFSR Gosbank may endorse bills and notes.

11) Foreign Credit

81. RSFSR Gosbank may on its own behalf secure credit and issue securities abroad both in support of its own activities and on behalf of the Government of the RSFSR and under the latter's absolute guaranty.

Section XI. Employees of RSFSR Gosbank

82. Conditions of employment, termination of employment and compensation, duties, and disciplinary penalties on employees of RSFSR Gosbank shall be determined by the Board of Directors of RSFSR Gosbank.

83. The Board of Directors of RSFSR Gosbank shall establish a pension fund to provide additional employee pension benefits.

84. Employees of RSFSR Gosbank may not hold additional concurrent employment or contract for services, may not receive any money from organizations or individuals (with the exception of royalties and fees for publications and teaching at state educational institutions), and may not enter into business relationships with commercial banks or enterprises.

85. Employees of RSFSR Gosbank may obtain credit only at RSFSR Gosbank.

86. Employees may not disclose the details of banking operations or other confidential information in cases when this could hinder performance of the functions of RSFSR Gosbank.

Section XII. Auditors of RSFSR Gosbank

87. The RSFSR Ministry of Finance or an auditing firm designated by it shall serve as auditor of RSFSR Gosbank.

88. The auditor shall examine the year's financial records of RSFSR Gosbank, shall certify the bank's financial report, and shall submit a corresponding report to the RSFSR Supreme Soviet and to RSFSR Gosbank.

89. The auditor shall be empowered to inspect the financial records of RSFSR Gosbank and to request any information required for conducting the annual audit. Any information obtained in this manner shall be considered confidential.

Section XIII. RSFSR Gosbank Financial Accounting

90. The financial reporting period (fiscal year) for RSFSR Gosbank shall be from 1 January through 31 December of each year.

91. The Board of Directors of RSFSR Gosbank shall annually, not later than 1 April, approve and submit to the RSFSR Supreme Soviet a report containing an analysis of the state of the economy, the banking system, financial markets, currency and credit collaborative effort with other countries, operations of RSFSR Gosbank, as well as its balance sheet and profit and loss statement as of 31 December. This report shall be affirmed by the auditor.

92. RSFSR Gosbank shall publish its annual report following examination by the RSFSR Supreme Soviet.

93. RSFSR Gosbank shall publish on a monthly basis figures on its balance sheet, the consolidated balance sheet of the banking system, and on money circulation.

Section XIV. Distribution of RSFSR Gosbank Profit

94. Profit of RSFSR Gosbank shall be defined as the difference between total revenues and expenses.

95. Positive exchange-rate differences on assets in foreign currency which are placed in a special reserve fund for covering currency risks shall not be counted as revenues. Nor shall profit from pension-fund investments which is put back into this fund be counted as revenues.

96. Ten percent of RSFSR Gosbank profit shall be applied to reserves until they reach 10 percent of the volume of cash circulation, and 10 percent of profit shall go into the pension fund until the pension fund total is sufficient to provide for pension payments.

97. Distribution of remaining profit shall be approved each year by the RSFSR Supreme Soviet at the request of RSFSR Gosbank.

Section XV. Organization of RSFSR Gosbank

98. RSFSR Gosbank shall constitute a unified RSFSR central bank and shall consist of a main office and branch offices.

99. The functions, manner and procedure of establishing branch offices of RSFSR Gosbank shall be determined by the Director of RSFSR Gosbank.

100. Officers of RSFSR Gosbank branch offices shall be appointed by the Director of RSFSR Gosbank.

Section XVI. Management of RSFSR Gosbank

101. Management of RSFSR Gosbank shall be exercised by the Director of RSFSR Gosbank and his deputy, and by the Board of Directors of RSFSR Gosbank.

102. The Director of RSFSR Gosbank and his deputy shall be appointed by the Chairman of the RSFSR Supreme Soviet for a term of six years, regardless of when a new Government of the RSFSR is formed. The Chairman of the RSFSR Supreme Soviet shall receive an oral and written pledge by the Director of RSFSR

Gosbank and his deputy to observe the law and not to disclose confidential information.

103. The Director of RSFSR Gosbank shall direct all activities of RSFSR Gosbank, shall represent its interests in the RSFSR and abroad, shall sign decisions of the Board of Directors, shall appoint and dismiss board members, and shall keep government authorities informed.

104. The salaries of the Director of RSFSR Gosbank and his deputy shall be determined by the Banking Committee of the RSFSR Supreme Soviet.

105. The Chairman of the RSFSR Supreme Soviet may dismiss the Director of RSFSR Gosbank and his deputy prior to expiration of their terms only with the approval of the RSFSR Supreme Soviet.

106. The Board of Directors of RSFSR Gosbank shall consist of the Director of RSFSR Gosbank and his deputy, plus seven executive directors, each of whom shall direct a separate aspect of RSFSR Gosbank operations.

107. The Director of RSFSR Gosbank may additionally appoint not more than three managing directors from among leading scientists and specialist personnel.

108. The Board of Directors shall perform the following functions:

- appoint and dismiss employees of RSFSR Gosbank and establish their pay;

- oversee and supervise the activities of all departments of RSFSR Gosbank;

- exercise the functions of RSFSR Gosbank specified by law.

109. The Board of Directors of RSFSR Gosbank shall draw up and ratify a statute pertaining to their functions.

110. Meetings of the Board of Directors of RSFSR Gosbank shall be held as needed. The presence of not fewer than three members of the Board of Directors of RSFSR Gosbank, including that person performing the duties of Director of RSFSR Gosbank, shall be considered a quorum.

Section XVII. Dissolving RSFSR Gosbank

111. RSFSR Gosbank may be dissolved only by passage of an appropriate law by the RSFSR Congress of People's Deputies or by the RSFSR Supreme Soviet.

112. In case of dissolution, the capital of RSFSR Gosbank, as well as its employees, shall be transferred, with all rights and obligations, to its successor as determined by law.

Section XVIII. Relations With Other States

113. In such case as the RSFSR enters into an economic union with other states, the functions invested by this

Law in RSFSR Gosbank and other governmental agencies of the RSFSR shall be carried out on the basis of the USSR Law on the Reserve System of the USSR.

Draft Law of the Russian Soviet Federative Socialist Republic on Banks in the RSFSR

Section I. General Provisions

1. An autonomous legal entity which, on the basis of a license issued by RSFSR Gosbank is authorized to accept deposits and grant loans and credit, as well as to perform other operations and transactions on its own account or on behalf of clients or customers in conformity with this Law, shall constitute a bank.

2. Banks shall be independent in their activities, and agencies of government shall not be empowered to interfere in these activities.

3. Banks shall not be responsible for the obligations of the state, nor shall the state be responsible for the obligations of banks, unless an agreement to the contrary has been entered into between a bank and a corresponding government agency or the state has accepted such liability.

4. RSFSR Gosbank shall establish general rules and regulations applying to monetary, lending and credit operations and shall exercise oversight of the activities of banks on the territory of the RSFSR.

5. Banks shall be guided in their activities by the following laws of the RSFSR: Law on Banks in the RSFSR, Law on RSFSR Gosbank, Law on Monetary and Credit Regulation in the RSFSR, Law on the Monetary System of the RSFSR, as well as by other laws of the RSFSR and laws of the USSR, if the latter do not conflict with laws of the RSFSR, as well as by their own bylaws.

6. This Law shall not extend to RSFSR Gosbank or to the central banks of other states, to intergovernmental banks, to fiscal authorities at all levels, as well as to institutions which have been exempted from the provisions of this Law by special decision of RSFSR Gosbank and the RSFSR Ministry of Finance.

Section II. RSFSR Banking System

7. The banking system of the RSFSR shall include a central bank (RSFSR Gosbank), commercial and cooperative banks.

8. Commercial and cooperative banks in the RSFSR shall conduct any permitted operations and transactions, with the exception of conduct of currency transactions and brokering on the securities market, which require a special license from the RSFSR Ministry of Finance.

9. Foreign banks may open offices and branches or branch operations in the RSFSR and may participate in joint-stock and cooperative banks, in conformity with this Law and the Law on Foreign Investments in the RSFSR.

10. Commercial and cooperative banks may open branches and offices on the territory of the RSFSR and abroad, in the manner and procedure established by RSFSR Gosbank, with subsequent notification of the appropriate institution of RSFSR Gosbank within one calendar month's time.

Bank Associations

11. Banks in the RSFSR may form temporary associations (syndicates, consortiums) for joint conduct of large projects, including lending and credit.

12. Banks in the RSFSR may not form associations for the purpose of manipulating interest rates or terms and conditions of offering loans and credit and other banking services.

13. Banks may form professional associations and alliances for exchange of information, drafting of proposals on banking policy, and for joint training of personnel.

Section III. Bank Licensing and Registration

14. A legal entity may engage in banking activities only after obtaining an appropriate license from RSFSR Gosbank.

15. A bank in the RSFSR may be established in the following legal forms:

—a joint-stock company or corporation;

—a cooperative.

16. A joint-stock bank shall be defined as a public or private company with limited liability, engaged in banking operations, the shares of which belong to natural persons and legal entities. The establishment of such banks shall be governed by this Law and by the Law on Corporations and Joint-Stock Companies.

17. A cooperative bank shall be defined as a cooperative engaged in banking operations, the members (shareholders) of which are natural persons who function concurrently as depositors and borrowers.

18. A bank's capital stock or principal fund shall not be less than 500,000 rubles. RSFSR Gosbank may specify a different amount of bank capital stock or principal fund.

19. The principal fund of banks in the RSFSR shall be formed of the funds of natural persons and legal entities, as well as government funds, if a government agency at an appropriate level of government considers it suitable and appropriate to become a bank stockholder or shareholder.

20. To obtain a banking license, the founding participants or existing institution shall send to RSFSR Gosbank by registered letter a notarized and signed application containing the bank's name, official location, purposes for establishing the bank, the names and addresses of the founding participants, their degree of financial liability, and information on the professional

suitability of the bank's officers. The bank's bylaws, approved by a meeting of stockholders, or shareholders, and a record of the meeting proceedings shall be attached to the application.

21. The bank's bylaws shall be drawn up on the basis of RSFSR incorporation law and the recommendations of RSFSR Gosbank.

22. An application for a banking license shall be examined and considered not later than 60 days from the date of submission of application.

23. The reasons for refusal to issue a banking license must be stated and may be appealed in a court of law and may be submitted to an arbitration body.

24. Notification of license approval or disapproval shall be made by registered letter.

25. For establishment of a joint-stock or cooperative bank with the participation of foreign legal entities and natural persons, the following documents shall be required in addition, if their participation exceeds 10 percent of total capital:

—for founding participants (participants) which are legal entities.

a) bylaws or other document affirming their legal status, and published balance sheet for the three previous years;

b) the formal decision by an appropriate agency of the foreign founding participant to participate in a bank in the RSFSR;

c) a written statement by a supervisory or oversight agency in the country of origin of the foreign founding participant (participant) that said agency does not object to the participant's participation in a bank on the territory of the RSFSR, or a statement by a duly-empowered agency or legal service that such permission is not required by the laws of the country of origin of the founding participant (participant);

—for founding participants (participants) who are natural persons:

a) a statement of financial solvency from a reputable bank;

b) letters of recommendation from two legal entities or natural persons who are known to be financially solvent.

26. Commercial banks must notify RSFSR Gosbank of changes made in bylaws.

27. The following can be grounds for refusal to issue a banking license:

a) submission of false or incomplete information or documents;

b) absence of at least two bank officers with adequate professional qualifications;

c) violation of incorporation, currency or other laws of the RSFSR;

d) a serious threat to the interests of clients and creditors, based on information on the intentions or past actions of the bank's founders or officers.

Register of Banks in the RSFSR

28. RSFSR Gosbank shall maintain a republic register (book of registration) of banks.

29. A bank shall be entered or removed from the register by RSFSR Gosbank upon receiving or losing a banking license.

30. All changes in the register shall be reported in the press.

31. Copies of the register shall be made available for all persons who wish to consult them, at institutions of RSFSR Gosbank.

32. The register, according to its status as of 31 December of the preceding year, shall be published annually in the press.

Withdrawal of Licenses

33. The Director of RSFSR Gosbank, in case of violation by a commercial bank of the law, of the regulations of RSFSR Gosbank, of its bylaws, the communication of false information, as well as delay of commencement of banking activities by more than one year, shall declare its banking license null and void.

Such a decision may be appealed in a court of law or before an arbitration body.

34. A joint-stock company or cooperative with a canceled or withdrawn banking license is not authorized to engage in the operations and transactions listed in this Law and shall be dissolved in conformity with its legal status.

Section IV. Banking Activities

Bank Operations and Transactions

35. Banks in the RSFSR may engage in the following operations and transactions:

1) receive and place deposits;

2) grant and obtain loans and credit, including secured credit;

3) discount bills, notes, checks, and other monetary obligations;

4) buy and sell securities [tsennyye bumagi—Soviet term also applies to letters of credit, checks, bills, notes] on its own behalf;

5) issue guaranties and sureties;

- 6) purchase and sell accounts receivable (including factoring operations);
- 7) purchase and sell foreign currency on their own behalf;
- 8) engage in leasing machinery and equipment;
- 9) settle accounts, remit funds, and transfer funds on the instructions of customers;
- 10) conduct commercial transactions on a commission basis;
- 11) accept valuables for safekeepings;
- 12) conduct fiduciary management of assets.

36. Banks in the RSFSR may open hard-currency accounts for customers and may conduct international currency and credit transactions upon obtaining from the RSFSR Ministry of Finance a license to engage in currency transactions.

37. Banks in the RSFSR may conduct brokering transactions with securities, and may organize the issue of securities upon obtaining from the RSFSR Ministry of Finance a license for such operations.

38. Banks in the RSFSR may engage in other types of monetary and credit transactions not prohibited by RSFSR Gosbank.

39. Relations between banks and customers or clients in the RSFSR shall be on a contractual basis.

Ensuring Repayment of Loans and Credit

40. Banks in the RSFSR may grant loans and credit against the following security:

- lien or encumbrance upon property;
- guaranties and sureties in forms acceptable in banking practices.

41. Banks may accept as collateral or security real property free of encumbrance, goods, money and other valuables, securities and other negotiable instruments, as well as documents of title to goods on agreement with the borrowers.

42. The manner and procedure of filing or recording a pledge of security or collateral shall be established by RSFSR Gosbank.

43. Property on which the bank has a lien or encumbrance shall be sold, in case of breach of the terms of credit, without resort to court or arbitration body.

44. Credit guaranties and sureties may be conditional (dependent on performance of specific obligations by the borrower) or unconditional.

45. The manner and procedure of giving credit guaranties and sureties shall be established by RSFSR Gosbank.

46. Borrowers who fail to meet credit obligations may be declared by banks to be insolvent, with notification of this to all interested parties by means of public notice in the press.

47. The following measures may be taken, at a bank's request, in regard to a borrower who has been declared insolvent:

- transfer of day-to-day management to a trustee-administrator appointed with the participation of the creditor bank;
- reorganization;
- liquidation with the sale of property on which the bank has a lien.

48. Bank-proposed measures shall be carried out, depending on the legal status of the borrower, in the manner and procedure established by appropriate law.

Attachment and Garnishment of Funds and Valuables in Banks

49. Funds and valuables in banks may be attached on the basis of decisions by a court of law, arbitration body, or investigative agencies, while garnishment may be performed only on the basis of court-issued writs of execution, orders issued by arbitration bodies, and other writs and, in cases prescribed by RSFSR laws, on the demand of fiscal authorities.

50. Funds and valuables of foreign and international organizations contained in banks in the RSFSR may be attached or garnished only on the basis of a decision by a court of law or arbitration body, in the manner and procedure established by laws currently in force.

51. Bank-held funds and valuables owned by individuals may be attached only on the basis of the following:

- court decision or order by investigative agencies on criminal matters which they are handling, as well as in current cases of confiscation of property as prescribed by law;
- court decisions when courts are handling civil matters proceeding from criminal cases, cases of garnishment for non-payment of alimony, or for division of bank deposits constituting the joint property of married couples.

52. Funds and valuables owned by individuals may be garnished on the basis of a court sentence or decision satisfying a civil suit proceeding from a criminal case, a court decision or judge's order of garnishment for non-payment of alimony, or a court decision pertaining to division of a bank deposit constituting the joint property of a married couple.

53. Funds and other valuables owned by individuals may be confiscated on the basis of a judgment which has entered into force or a property confiscation order brought in conformity with the law.

Banking Secrecy and Confidentiality

54. Banks of the RSFSR shall guarantee secrecy and confidentiality to the transactions, accounts, and deposits of their customers, clients and correspondents.

55. Documents pertaining to customer transactions and accounts shall be issued to customers proper, their agents, courts, auditing organizations, and tax authorities.

56. Documents pertaining to accounts and deposits, in the case of death of the account holder or depositor, shall be given to the official heirs and state notarial offices for inheritance cases they are handling, as well as to foreign consular establishments.

Taxation of Banks

57. Banks and their institutions located on the territory of the RSFSR shall pay profit tax at a uniform tax rate and in the manner and procedure established by RSFSR tax laws.

Bank Accounting and Reporting Procedures

58. The accounting and reporting period for banks in the RSFSR shall run from 1 January to 31 December.

59. Accounting at banking establishments shall be conducted in conformity with the rules and procedures established by RSFSR Gosbank.

60. Banks shall prepare and publish semiannual and annual financial reports within three months after the end of the accounting and reporting period, in a form as established by RSFSR Gosbank.

61. Semiannual and annual financial reports shall include the bank's balance sheet and profit and loss statement.

62. A bank's annual financial report must be certified by a duly-authorized auditing organization.

63. A bank's annual financial report shall be readily available to all stockholders, shareholders, and other interested parties.

Bank Names

64. The words bank, banker, banking institution and lending and credit institution may be used in an organization's name and in its advertising only after obtaining a banking license from RSFSR Gosbank.

65. In case of violation of Article 64, RSFSR Gosbank shall order that violations of this Law be corrected within one month's time.

If this order is not obeyed, the guilty-party bank shall pay a fine of 10,000 rubles for each day from said one month's time.

Bank Advertising

66. In advertising their services, banks must state all conditions and terms of operations and transactions, including the nominal and actual (taking inflation into account) interest rate, amount of commission, procedures of taxation and other information essential to the customer.

67. RSFSR Gosbank shall be empowered to issue bank advertising rules and regulations and to limit or restrict specific types of advertising.

Banking Hours

68. RSFSR Gosbank shall issue recommendations on banking hours (daily banking hours, days off, holidays), in conformity with the laws and enactments of the Government of the RSFSR.

69. Banking institutions in the localities shall establish banking hours with consideration of the recommendations of RSFSR Gosbank and republic laws.

Section V. Group Deposit Insurance System

70. All banks which have been licensed and are operating in conformity with this Law must participate in the group deposit insurance system.

71. RSFSR Gosbank is empowered to organize and accomplish practical implementation of the terms and conditions of the deposit insurance system.

72. The deposit insurance system guarantees that losses will be covered up to 10,000 rubles per depositor in case of bankruptcy or insolvency of a system member bank.

73. RSFSR Gosbank shall reconsider the maximum amount of insured deposit once every three years.

74. Depositors shall receive compensation only in the absence of other forms of insurance.

75. Depositor compensation shall be paid by all system member banks proportionally to the sum total of their deposits coming under the protection of the group insurance system.

76. System member banks may not pay out in the course of a year more than 10 percent of the bank's resources in the form of compensation. If it is necessary to pay out compensation in a greater amount, RSFSR Gosbank shall offer interest-free credit.

77. RSFSR Gosbank shall, with the participation of representatives of banking associations, draw up the operational rules and procedures for the group deposit insurance system and shall ratify these rules and regulations through its the Board of Directors.

Section VI. System of Banking Oversight and Supervision

78. RSFSR Gosbank shall constitute a governmental oversight agency supervising the activities of banks in

the RSFSR and monitoring their observance of the laws of the RSFSR and enforceable enactments of RSFSR Gosbank.

79. Banks shall submit to RSFSR Gosbank statistical and financial records in the form and at the times specified by RSFSR Gosbank. Information obtained in the course of banking oversight and supervision shall be considered secret and confidential.

80. RSFSR Gosbank shall be empowered, if grounds exist for such action, to authorize a complete or selective field audit by RSFSR Gosbank personnel of the records and documents of the bank in question.

81. When conducting a field audit, RSFSR Gosbank personnel shall carry documents identifying them and certifying their authorities.

82. On the instructions of RSFSR Gosbank, a bank audit may be conducted by an auditing organization.

83. In order to ensure bank stability and to protect the interests of bank clients and customers, banks in the RSFSR must observe the following economic standards established by RSFSR Gosbank:

- a) ratio of bank-owned funds to assets and liabilities;
- b) maximum amount of loan or credit per borrower;
- c) bank balance liquidity indicators;
- d) mandatory reserves.

84. RSFSR Gosbank may establish a minimum required amount of bank-owned assets (free-and-clear capital plus reserves) as a ratio to:

- granted loans, credit, investments, and other assets;
- obligations with risk;
- exposed positions in foreign currencies;
- liabilities;
- other balance sheet items.

85. RSFSR Gosbank shall publish decisions on required amounts, pertaining to assets and liabilities, including those not pertaining to the bank's own balance sheet, capital, reserves, bank-owned assets, risks, positions (covered and exposed), and bank investments.

86. Maximum risk per borrower shall be established by RSFSR Gosbank as 10 percent of total bank-owned assets. The term risk shall encompass the sum total of loans, credit and guaranties (sureties) to a given customer or on his instructions (under his guaranty).

87. Bank balance liquidity indicators and required amounts of mandatory reserves, as well as other standards shall be established in conformity with the RSFSR Law on Monetary and Credit Regulation in the RSFSR.

88. Banks may not, without the approval of RSFSR Gosbank:

- reduce the amount of bank-owned assets by disbursement of principal fund and distribution of reserves among stockholders;
- acquire controlling blocks of stock (50 percent plus one share) of corporations or joint-stock companies;
- merge with other organizations;
- acquire more than 50 percent of the assets and liabilities of other organizations;
- conduct real-estate brokering and investment transactions.

89. In response to a written request, RSFSR Gosbank shall approve or disapprove the conduct of operations as listed above, by registered letter within 45 days.

90. Disapproval must be motivated by the interests of the banking system or the customers and clients of the specific bank in question.

91. RSFSR Gosbank, in consultation and coordination with the RSFSR Ministry of Finance, shall determine the manner and procedure of forming insurance and reserve funds from bank profit for the purpose of covering possible losses.

92. RSFSR Gosbank shall be empowered to issue directives ordering banks to observe the above standards, prohibiting or restricting certain types of operations and transactions, their magnitude, timeframe, and other terms and conditions.

93. In case of violation of the provisions of this section of the Law, RSFSR Gosbank shall prescribe time requirements and conditions for correcting violations.

94. In case of persistent and deliberate violation of the provisions of this Law, failure to carry out the instructions of RSFSR Gosbank, and actions which threaten the interests of a bank's creditors, customers and clients, RSFSR Gosbank shall be empowered:

- to raise before the stockholders or founders the question of taking steps to improve the bank's financial health or to conduct bank reorganization;
- to demand replacement of the bank's officers or to appoint a temporary trustee-administrator to manage the bank;
- to withdraw the bank's banking license.

Section VII. Procedure of Entry of the Law Into Force

95. This Law shall enter into force at the same time as the following RSFSR Laws: Law on RSFSR Gosbank, Law on Monetary System of the RSFSR, and Law on Monetary and Credit Regulation in the RSFSR.

**Draft Law of the Russian Soviet Federative
Socialist Republic on Budget structure and Budget
Process in the RSFSR**

Section I.

Article 1. Structure of Budget System

The budget system of the Russian Soviet Federative Socialist Republic shall contain the following, as autonomous components: the RSFSR Republic Budget, the state budgets of the autonomous republics, the budgets of autonomous oblasts and okrugs, and local budgets; additional items include specific funds outside the budget.

Article 2. Budget Process

The manner and procedure of preparation, examination, ratification and execution of the RSFSR Republic Budget shall be determined by this Law and shall be under the authority of the RSFSR. The manner and procedure of preparation, examination, ratification, and execution of the state budgets of autonomous republics shall be determined by the laws of these republics. The manner and procedure of organization of the budget process of autonomous oblasts and okrugs as well as local authorities shall be determined by enactments of corresponding Soviets of People's Deputies within the framework of republic (RSFSR and ASSR) laws.

Article 3. Principles of Budget Structure

The budget shall constitute an estimate of revenues and expenditures of a corresponding agency of government. Each agency of government may have only one budget, which shall cover its revenues and expenditures. Budget organization in the RSFSR shall be grounded on the principles of unity, completeness, realisticness, glasnost and autonomy of the RSFSR Republic Budget, the state budgets of autonomous republics, the budgets of autonomous oblasts and okrugs, and local budgets.

Article 4. Funds Outside the Budget

1. Financial funds of appropriate agencies of government may be formed outside the budget by decision of legislative bodies of the RSFSR or autonomous republics or by decision of the Soviets of People's Deputies of autonomous oblasts and okrugs, and by decision of local Soviets of People's Deputies adopted within the framework of legislation.
2. Funds outside the budget shall be of a specific nature; they may not be spent for purposes not in conformity with the purpose of the fund as specified in the funding decision.
3. Both secured funds and budget appropriations can serve as sources of revenues for funds outside the budget.

Article 5. Budget Regulation and Budget Fiscal Policy

1. Budget regulation is a component part of regulation of the economy, medium-term and long-term forecasting of economic and social development of the RSFSR.
2. RSFSR budget and fiscal policy, including tax policy, as well as budget and fiscal policy of the autonomous republics, oblasts and okrugs, and local authorities shall be coordinated with one another and shall be implemented in mutual coordination with RSFSR monetary-credit, price and currency policy.
3. The RSFSR shall take part in harmonization and coordination of budget and fiscal policy with the sovereign republics which are members of the Union of Soviet Socialist Republics, as well as with all-union agencies of government. The RSFSR shall voluntarily assume the obligations of coordinating budget and fiscal policy with foreign states and international organizations within the framework of intergovernmental agreements and international treaties.

Article 6. Relations With the Union Budget

1. Delineation of budgetary powers of the USSR and the RSFSR shall be determined on the basis of the state sovereignty of the RSFSR.
2. Republic budget funds, by decision of legislative bodies and Soviets of People's Deputies, may be directed toward the forming of joint specific-purpose financing funds and for financing joint socioeconomic and scientific programs, both with agencies of government of the USSR and with other sovereign republics of the USSR.
3. Union budget funds, transferred over to the republic budget in the form of subventions and subsidies to compensate for lost revenues or to cover specific-purpose expenditures, shall be included as a special section in the revenues portion of the budget and shall be utilized strictly in conformity with their specifically intended purpose.

**Section II. Fundamentals of Budget Structure and
Budget Process**

**Article 7. Budget Process, Fiscal Year, Budgeting
Period**

1. Preparation and execution of the budget shall be the function of agencies of executive authority, while examination and ratification of the budget shall constitute the function of legislative bodies of the RSFSR, autonomous republics, oblasts and okrugs, and local Soviets of People's Deputies.
2. A banking system of budget cashier transactions shall be established in the RSFSR. RSFSR Gosbank, its institutions in the localities and, if such institutions are not available, any other bank on its instructions, shall perform budget accounting functions and shall serve as cashiers of the corresponding agencies of government.

3. A 12-month fiscal year shall be specified on the territory of the RSFSR (the calendar year from 1 January to 31 December). The budget accounting period shall include the fiscal year plus an extended period of three months beyond the fiscal year, during which operations pertaining to budget execution obligations shall be completed. The budget accounting period shall total 15 months.

Article 8. Unity, Realisticness, and Completeness of the Budget

1. Budgets shall encompass all revenues and expenditures of agencies of government authority and administration and shall realistically reflect their sources, dimensions and areas of utilization.

2. The RSFSR Republic Budget, state budgets of autonomous republics, budgets of autonomous oblasts and okrugs and budgets of local authorities shall constitute the sole documents in which their revenues and expenditures are reflected. Specific-purpose funds outside the budget, with a precisely-specified purpose, with their own sources of revenues or sources specified by law, and with their own system of operational administration, may be formed by decision of appropriate legislative bodies and Soviets at all levels.

Article 9. Glasnost of the Budget Process

1. The RSFSR Council of Ministers, the Councils of Ministers of autonomous republics, and executive bodies of local Soviets of People's Deputies shall each year, prior to commencement of draft budget consideration in legislative bodies, make the draft budget public knowledge. Reports shall be published annually on execution of budgets and utilization of outside-budget funds. The RSFSR Council of Ministers shall publish annually as statistical information a consolidated report on execution of the budgets of all agencies of government of the republic as well as the forming and utilization of outside-budget funds.

2. Ministerial economic, item, and mixed budget classifications shall be used in the RSFSR, ensuring international comparability of budget data. The RSFSR shall seek standardization of forms of budget statistics and classifications at the USSR level by means of cooperation, consultation and coordination with the sovereign republics forming the USSR and with agencies of government of the Union of Soviet Socialist Republics.

Specific forms of budget documentation for budgets shall be determined by the RSFSR Ministry of Finance and RSFSR State Committee for Statistics.

3. Examination and ratification of budgets and budget execution reports by legislative bodies and Soviets of People's Deputies at all levels shall be open and public, with the exception of those instances where discussion is of items legislatively categorized as state secrets.

Article 10. Autonomy of Budgets

1. The RSFSR Republic Budget, state budgets of autonomous republics, budgets of autonomous autonomous oblasts and okrugs, and local budgets shall be autonomous.

2. The availability of an authority's own sources of revenue or revenue sources designated by law shall constitute the basis of budget autonomy at all levels of the budget system.

3. Budget expenditures shall be approved by legislative bodies or Soviets of People's Deputies at all levels, and transfer of funds from the expenditures portion of one budget to the revenues portion of another budget shall be done only at the decision of legislative bodies or Soviets of People's Deputies. Such a transfer shall be of the nature of subventions or subsidies.

4. In the process of budget execution, changes in budget revenues and expenditures and transfer of appropriations from one expenditure item approved by the appropriate legislative body or Soviet of People's Deputies into other expenditure items may be done only on the decision of the appropriate legislative bodies or soviets of People's Deputies.

Article 11. Budgetary Authorities (Appropriations)

1. Budgetary authorities pertaining to spending (appropriations) for the coming fiscal year shall be examined and ratified by legislative bodies prior to the beginning of the budget accounting period.

The manner and procedure of designating appropriations for the RSFSR Republic Budget shall be determined by this Law. The manner and procedure of designating appropriations for state budgets of autonomous republics, budgets of autonomous oblasts and okrugs, and budgets of local authorities shall be determined by the corresponding legislative bodies and local Soviets of People's Deputies. In such case as appropriations are not approved by the designated time, agencies of executive authority shall be authorized for a period of three months to expend within the course of each month one twelfth of the total amount of budgetary funds expended in the preceding year.

2. In the process of budget execution, executive authorities shall make changes in budget revenues and expenditures within the limits of the power granted to them by legislative bodies.

3. By decision of legislative bodies and local soviets of People's Deputies, appropriations for specific-purpose programs running for several years may be approved. Said appropriations shall be included in the budgets of subsequent years if legislative bodies have not made a special decision to revise or revoke them.

4. Appropriations earmarked for payment of interest on state indebtedness and to repay indebtedness of past years, contained in the corresponding budget for the

given year, shall be included in full amount in the budget of the corresponding fiscal year, in conformity with previously-accepted loan and credit obligations. Expenditures of this type may not be cut or transferred to a different time without the consent of the holders of the obligations in question.

5. Appropriations for financing the activities of legislative bodies and judicial authorities and financing the activities of local Soviets of People's Deputies shall be included in the budgets at the appropriate level as independent expenditure items: expenditures for financing the activities of the RSFSR Supreme Soviet, RSFSR Congress of People's Deputies, and the RSFSR Supreme Court shall be included in the RSFSR Republic Budget; expenditures applying to the supreme soviets of autonomous republics and supreme courts of autonomous republics shall be included in the corresponding budgets of the autonomous republics, while expenditures applying to local Soviets of People's Deputies and courts at all levels shall be included in the corresponding local budgets.

Article 12. Budget Revenues

1. Establishment of republic taxes, fees, charges, and mandatory payments levied throughout the territory of the republic and going fully or partially into the RSFSR Republic Budget comes within the authority of the RSFSR. The list and amounts of tax rates, specification of what is to be taxed, and the methods of collection of said taxes, charges, fees, and payments shall be determined by the RSFSR Supreme Soviet.

2. The Supreme Soviets of autonomous republics and local Soviets of People's Deputies shall be empowered to institute local taxes, charges, fees, and payments to be collected on their territory and to go into their budgets, within the framework specified by republic laws.

3. Agencies of government and administration of autonomous republics and local bodies shall collect republic and local taxes, fees, charges, and payments in conformity with RSFSR Laws.

4. Direct and indirect taxes on legal entities and natural persons shall comprise the basis of RSFSR Republic Budget revenues. The RSFSR shall determine the list of general state taxes.

5. The system of taxation shall establish long-term standards governing the financial parameters of socioeconomic development of the RSFSR. The system of taxation shall not be subject to annual reapproval by legislative bodies or Soviets in the course of budget approval. The system of taxation shall operate without changes until such time as the legislative authorities adopt a special decision on tax reform: on changing tax rates, methods of computing taxable income, what is to be taxed, or on the composition of taxes, fees, charges, payments, and the methods of their collection.

6. Determination of maximum rates for each type of general state and local tax, charge, fee, and payment collected on the territory of the republic shall come within the competence of the RSFSR.

7. Making of international tax agreements for the purpose of preventing double taxation, with foreign countries on the basis of reciprocity, shall come within the competence of the RSFSR. Tax agreements previously entered into by the USSR shall remain in effect on the territory of the RSFSR and shall not be subject to ratification by legislative bodies of the RSFSR.

Article 13. A Balanced Budget

1. A balanced republic budget, state budgets of autonomous republics, budgets of autonomous oblasts and okrugs, and local budgets shall be a primary goal of the budgetary and fiscal policy of legislative and executive authorities and the Soviets of People's Deputies at all levels in the RSFSR.

2. Government expenditures exceeding revenues shall constitute a budget deficit. The Republic Government (RSFSR Council of Ministers), the governments of autonomous republics, and executive committees of local Soviets of People's Deputies shall bear independent financial liability for obligations occurring in connection with failure to balance the corresponding budget.

3. Covering a budget deficit by emission of currency shall be prohibited. Forming, when necessary, government indebtedness shall constitute the sole form of obtaining additional funds to cover a deficit.

4. Debts of agencies of government to natural persons, legal entities, and lending institutions shall be based on repayable loans with payment of interest at an appropriate interest rate. The terms of a loan shall be publicly announced by the Government and Executive Committee of the Soviet of People's Deputies and may be changed only with the consent of the holders of the obligations, who should have the right to early debt repayment in case of change in terms.

5. Placement of government debt obligations shall be of a voluntary nature.

6. State budget revenues in excess over budget expenditures shall constitute a budget surplus. A given budget surplus which has formed as of the end of the budget accounting period following a completed fiscal year shall be transferred to special bank accounts of the Government and Executive Committee of the Soviet of People's Deputies and shall be used to discharge the government debt of the corresponding agency of government. If there is no indebtedness, a decision on utilization of such funds shall be made by legislative bodies or corresponding Councils of People's Deputies.

7. The Supreme Soviets of the RSFSR and autonomous republics as well as local Soviets of People's Deputies

shall approve the amount of cash balance from carry-overs from the corresponding budget, as a part of the corresponding budget above and beyond prescribed expenditures, as of the beginning of the new fiscal year. Such cash balance may be used in the course of the year to cover temporary differences in current incoming revenues and outgoing expenditures and shall be restored in that same year to the amounts established during budget approval.

Article 14. Budgets of Agencies of Government, Finances of Enterprises and Other Legal Entities, and State Property

1. An enterprise in the RSFSR shall constitute an autonomous operating fiscal entity and shall possess the rights of a legal entity. The balances of enterprises as well as of other autonomous legal entities may not be a part of and may not be included in the budgets of any agencies of government. Funds of enterprises and other autonomous legal entities may be taken and transferred into the budget above and beyond taxes, fees, charges, and mandatory payments established by Law only by decision of a court of law or state arbitration body.

2. The expenditures portion of budgets may contain appropriations and grants or subsidies to enterprises or other legal entities and natural persons. This shall not cause establishment of rights of ownership by the state or municipal ownership to said enterprises or to the property of other legal entities and natural persons.

3. The expenditures portion of budgets may contain appropriations for investment in the capital of already-existing or newly-forming enterprises. Ownership by the state or local Soviets of People's Deputies to an equivalent portion of said capital, expressed in full possession or in possession of stock (shares) of a corporation, joint-stock company, or partnership, shall constitute the result of such investments.

4. Property of production and non-production designation created by state budget investment shall be transferred over to the appropriate specialized agencies to manage and administer state property.

5. Revenues from the operation of state property (dividends) or from the sale or lease of said property created through budget investment may either be included as budget revenues or may be used for the development needs of the enterprise in question.

6. Capital investments financed by budget appropriations of any agency of government on the territory of the RSFSR shall be made on a free and unrestricted basis into the capital of enterprises of any category under general commercial terms, with the exception of branches, sectors, and enterprises specifically designated by decision of a legislative body.

Section III. Local Budgets

Article 15. Structure of Local Budgets

1. The budgets of krais, oblasts, the cities of Moscow and Leningrad, autonomous oblasts, okrugs, and rayons, cities and towns, urban rayons, small-community, rural and other national-state and administrative-territorial units, governmental authority in which, in conformity with the RSFSR Constitution, is exercised by local Soviets of People's Deputies of all levels, shall constitute local budgets.

2. Local Soviets of People's Deputies shall independently examine and approve the budgets of corresponding national-state and administrative-territorial units and shall approve budget execution financial reports. Executive committees shall prepare draft budgets, shall submit them to Soviets for examination, and shall execute local budgets after they have been approved.

Article 16. Revenues and Expenditures of Local Budgets

1. The makeup and amounts of that portion of general state taxes, charges, fees, and payments to be transferred as local budget revenues shall be determined by RSFSR legislative bodies, proceeding from the corresponding socioeconomic budget provision standard amounts to meet the requirements of the population of the area in question, as well as from the state of local revenue sources.

2. The rate structure and methods of collection of local taxes, charges, fees, and payments shall be determined by the Soviet of People's Deputies of all levels independently, within the framework of the laws of the RSFSR and autonomous republics.

3. Funds transferred to local budgets from the budgets of higher agencies of government in the form of specific-purpose and general subsidies and grants shall be utilized strictly as designated.

4. Local Soviets of People's Deputies shall give abatements on general state and local taxes, fees, charges and payments collected from individuals and legal entities on the corresponding territory, within the limits of funds remitted to the corresponding local budgets.

5. Specific areas of expenditure of local budget funds, with the exception of specific-purpose financial resources transferred to local budgets, shall be determined independently by local Soviets of People's Deputies.

Article 17. Funds Outside the Budget

1. By decision of local Soviets of People's Deputies, specific-purpose funds outside the budget may be formed, in conformity with the provisions of this Law. A local Soviet of People's Deputies shall approve the status of each such specific-purpose fund, in which the domain of fund activity, purposes and tasks, structure and

methods of forming budget funds and structure of administrative and management agencies shall be determined.

Section IV. RSFSR Republic Budget

Article 18. Preparing the Budget

Preparation of the draft RSFSR Republic Budget shall be performed by the RSFSR Ministry of Finance, taking into account the course of socioeconomic development of the republic and projection of budget revenues, in conformity with present laws. The RSFSR Ministry of Finance shall submit the draft RSFSR Republic Budget to the RSFSR Council of Ministers for examination not later than 4 months prior to the beginning of the fiscal year in question. After examination by the RSFSR Council of Ministers, the draft RSFSR Republic Budget shall be submitted for review to the RSFSR Supreme Soviet on behalf of the Government of the RSFSR.

Specified amounts to be contributed from general state taxes and revenues to the state budgets of autonomous republics, the budgets of autonomous oblasts and okrugs, and the budgets of krais, oblasts and the cities of Moscow and Leningrad shall be submitted together with the draft RSFSR Republic Budget for approval by the RSFSR Supreme Soviet.

Article 19. Budget Examination and Approval

1. The RSFSR Council of Ministers shall submit the draft budget to the RSFSR Supreme Soviet for examination not later than 3.5 months prior to the beginning of the fiscal year in question, to be considered at a joint session of the Supreme Soviet.

2. Item-by-item examination and approval of RSFSR Republic Budget expenditure appropriations shall be performed for each item as a whole in conformity with consolidated mixed budget classification. Within the framework of budget items of a given classification to be approved, any type of appropriation for an amount equal to or exceeding one billion rubles shall be carried on a separate line.

3. Appropriations for financing the activities of the Supreme Soviet, the RSFSR Congress of People's Deputies and the RSFSR Supreme Court shall be included by the Ministry of Finance in the republic draft budget in the amount specified by these bodies, and shall be examined and approved as separate expenditure items.

4. Examination of the draft budget in the RSFSR Supreme Soviet shall be conducted over the course of one month in the committees and commissions of the RSFSR Supreme Soviet. By the end of this period the committees and commissions shall adopt recommendations to the RSFSR Supreme Soviet on approval or rejection of the draft budget, on the following principal items:

—upper limit of total appropriations (expenditures part of the budget);

—lower limit of budget revenues (revenues part of the budget);

—maximum amounts by which the budget may fail to balance (surplus or deficit).

The commissions and committees of the RSFSR Supreme Soviet shall also adopt a conclusion on the budget items. Work by the RSFSR Supreme Soviet pertaining to examination and approval of the RSFSR Republic Budget shall be organized by the Republic Soviet Commission on Budget, Plans, Taxes, and Prices.

5. After completing examination of the draft budget in the commissions and committees, its examination shall continue in separate sessions of the chambers of the RSFSR Supreme Soviet for a period of two weeks. The chambers of the RSFSR Supreme Soviet shall make a decision at a joint session to approve or reject the main points of the draft budget.

6. Item-by-item examination and approval of draft budget appropriations (expenditures) shall be done at separate sessions of the chambers of the RSFSR Supreme Soviet in the course of two weeks following approval of an overall volume of expenditures. A decision to approve or reject each budget appropriation item shall be reached by a simple majority vote.

7. In case of rejection of one of the general budget characteristics (total expenditures, revenues, maximum surplus or deficit) or of one of the budget appropriation items by one or both chambers of the RSFSR Supreme Soviet, a conciliation commission to settle this matter shall be formed on a parity basis.

8. A conciliation commission of the chambers shall reach a decision within two weeks, by a three fourths majority vote; this decision shall be final and shall not be resubmitted for discussion by the Supreme Soviet. Representatives of the Council of Ministers shall take part in the proceedings of the conciliation commission; their job shall be to submit compromise proposals and to seek a consensus. If a consensus is not reached by the conciliation commission within two weeks, the matter shall be brought before a joint session of chambers of the Supreme Soviet. A decision shall be reached by a simple majority vote.

9. If one of the chambers rejects all three principal characteristics of the draft budget, the matter shall be brought before a joint session of the chambers of the RSFSR Supreme Soviet. If all three characteristics of the draft budget are still rejected by the RSFSR Supreme Soviet after two weeks, the RSFSR Council of Ministers must hold a vote of confidence in the Government.

Upon a successful vote of confidence, the Council of Ministers shall submit a new draft budget to the RSFSR Supreme Soviet within 15 days. In case of failure of the vote of confidence in the Government, a newly-formed Council of Ministers shall submit a new draft budget

within 30 days after confirmation of the Chairman of the RSFSR Council of Ministers.

10. The RSFSR Republic Budget shall be considered approved overall and shall enter into force after it has been signed by the Chairman of the Presidium of the RSFSR Supreme Soviet after completion of the budget approval process in the RSFSR Supreme Soviet.

Article 20. Power of Veto

The Presidium of the RSFSR Supreme Soviet shall have the power of temporary veto (rejection and return for deliberation and approval before the RSFSR Supreme Soviet) of individual public budget items. If the Presidium of the RSFSR Supreme Soviet exercises the right of veto, the question of a given article shall be raised at a joint session of chambers of the RSFSR Supreme Soviet; it must be considered within one month's time. A two thirds majority vote of the RSFSR Supreme Soviet shall be required to override a veto. In case of acceptance of a veto, the presidium of the RSFSR Supreme Soviet shall issue an appropriate edict on the appropriations pertaining to the budget item in question.

During the time prior to reaching a final decision on a veto, the RSFSR Council of Ministers shall be authorized to utilize budget appropriations pertaining to the article in dispute in the amount of one twelfth of their amount in the preceding fiscal year per month.

Article 21. Tax Reform

1. In case of rejection of the draft budget points pertaining to budget revenues by both chambers of the RSFSR Supreme Soviet, a conciliation commission shall not be formed. The RSFSR Council of Ministers must submit tax reform proposals not later than one month prior to the beginning of the fiscal year in question. The prior tax system shall continue to be in effect until such time as a new law on tax system or on individual taxes, fees, charges, and mandatory payments is adopted and enters into force.

2. The RSFSR Council of Ministers may submit proposals on tax reform at its own initiative not later than three and one half months prior to the beginning of the fiscal year in question. In the process of consideration and approval of a draft tax reform, the RSFSR Council of Ministers shall submit compromise proposals on tax reform as a budget initiative, considering the opinions of people's deputies.

Article 22. Budget Initiative

The RSFSR Council of Ministers shall have the right of budget initiative—the right to submit proposals for consideration by the RSFSR Supreme Soviet to include in the draft budget or exclude from the draft budget various budget appropriation items, as well as proposals on tax reform. The Presidium of the RSFSR Supreme Soviet shall possess the right of budget initiative within the framework of veto power. The RSFSR Council of

Ministers shall have the right to submit proposals on changing basic general points of a draft budget under consideration, taking into account progress in the consideration of these general points in the commissions and committees and at sessions of the chambers of the RSFSR Supreme Soviet, right up to the moment of their final approval. The RSFSR Council of Ministers shall have the right to submit proposals on changing any draft budget appropriations item during consideration of the budget at the RSFSR Supreme Soviet, taking into account the course of their consideration in commissions and committees and at sessions of the chambers of the RSFSR Supreme Soviet, right up to the moment of their final approval.

Article 23. Verification of Budget Execution

1. A report on execution of the RSFSR Republic Budget during the preceding fiscal year shall be submitted annually by the RSFSR Council of Ministers concurrently with submission to the RSFSR Supreme Soviet of the draft budget for the coming fiscal year.

2. The report on execution of the RSFSR Republic Budget shall be considered and approved by the chambers of the RSFSR Supreme Soviet by a simple majority vote.

3. A Budget Compliance Office shall be formed under the Presidium of the RSFSR Supreme Soviet to exercise legislative oversight of current execution of the RSFSR Republic Budget. The personnel of the Budget Compliance Office and its chairman shall be confirmed by the RSFSR Supreme Soviet on the nomination of the Chairman of the Presidium of the RSFSR Supreme Soviet, who shall be independent experts not working concurrently in agencies of executive, legislative, or judicial authority.

4. The Budget Compliance Office shall submit each quarter, to the Presidium of the RSFSR Supreme Soviet and to the Commission of the Soviet of the Republic on Budget, Plans, Taxes, and Prices of the RSFSR Supreme Soviet, on the current status of budget execution. Principal attention should be focused on the question of whether the ratified proportions between the main general points of the budget and the ratio of the total amount of budget expenditures and revenues and the degree of budget surplus or deficit are actually being maintained. A projection shall be made on budget execution, status of government debt, and their influence on the status of circulation of money and money supply, RSFSR credit and currency positions. All agencies of government on the territory of the RSFSR, including the RSFSR Ministry of Finance, as well as RSFSR Gosbank and appropriate ministries and agencies, must submit in a prompt and timely manner credit, fiscal, monetary and currency information required for the operations of the Budget Compliance Office.

5. On the basis of the Budget Compliance Office's reports, in case of decrease in budget revenues over the course of not less than four months in succession in

comparison with budget revenues as prescribed in the budget, and with a substantiated projection of continued decline in revenues, on the basis of a request by the RSFSR Council of Ministers, the Presidium of the RSFSR Supreme Soviet may issue an edict ordering sequester of a portion of approved budget expenditures, in order to prevent a RSFSR Republic Budget deficit from exceeding 20 percent above the approved level.

6. Sequester shall consist in proportional reduction of government expenditures monthly, by 5, 10, 15 percent, etc, on all budget items during the course of the time remaining of the current fiscal year. Interest payments on government debt shall be the only payments not subject to sequester. The RSFSR Supreme Soviet shall make a decision to exclude from possible sequester specific budget appropriation items at the time they are approved.

Article 22. Emergency Budget [numbering as published]

The Presidium of the Supreme Soviet may make a decision to adopt a supplementary emergency budget for the specific purpose of financing measures connected with emergency circumstances, on the basis of a decision by the Presidium of the RSFSR Supreme Soviet to declare a state of emergency in the republic as a whole or in certain areas, at the request of the RSFSR Council of Ministers.

In its edict the Presidium of the RSFSR Supreme Soviet shall specify revenue sources for financing emergency budget expenditures. Financing of emergency budget expenditures by emission of currency shall be permitted only in the case of a declaration of war. The introduction of additional taxes, charges, fees, and payments for financing emergency budget expenditures shall be done at the request of the RSFSR Council of Ministers, by decision of the RSFSR Supreme Soviet.

Article 23. Funds Outside the Budget [numbering as published]

1. Specific-purpose funds outside the budget, including joint funds with the USSR, with sovereign republics of the USSR, with autonomous republics or local authorities for regional development, a reserve fund, innovation funds (by branches, sectors, specific-purpose programs, regions), environmental protection funds (by branches, sectors, specific-purpose programs, regions), as well as funds for the conduct of projects and scientific research for the purpose of resolving major social, economic, and cultural problems, for prevention of and recovery from natural disasters, catastrophic events and major accidents, may be formed by decision of the RSFSR Supreme Soviet, at the request of the RSFSR Council of Ministers, other agencies and individuals with the right of legislative initiative.

2. General republic specific-purpose funds shall operate on the basis of a status approved by the RSFSR Supreme Soviet. The status of each specific-purpose fund shall include a description of revenue sources and area of

financing of activities, as well as methods of fund management and administration.

3. The RSFSR Supreme Soviet shall confirm an oversight commission to monitor the activities of each fund, enlisting specialists, representatives, private individuals, and groups from the general public with a direct interest in the results of fund activities. The appropriate commissions and committees of the RSFSR Supreme Soviet shall receive and approve an annual report by the administrators of a specific-purpose fund on its activities, an additional report by the oversight commission, and shall appraise the performance of the fund during the period under review.

Article 24. Consolidated Report on Execution of Budgets in the RSFSR

In order to draft proposals for determination of fiscal policy in conformity with current tasks pertaining to socioeconomic development of the RSFSR, the RSFSR Ministry of Finance shall be charged with preparing a consolidated report on execution of budgets in the RSFSR, including the RSFSR Republic Budget, state budgets of autonomous republics, budgets of autonomous oblasts and okrugs, budgets of local Soviets of People's Deputies, as well as specific-purpose funds outside the budget.

Draft Law of the Russian Soviet Federative Socialist Republic on Government Debt of the RSFSR

Section I. General Provisions

1. Debt obligations of the Government of the RSFSR which must be repaid at a specified time, in rubles or in foreign currency, shall constitute government debt of the RSFSR.

2. A decision to increase government debt shall be made by the Government of the RSFSR within the framework of a general limit set by the RSFSR Supreme Soviet.

3. RSFSR state debt shall be guaranteed by all assets at the disposal of the Government of the RSFSR.

Section II. Structure of RSFSR State Debt

4. RSFSR state debt shall include loans borrowed by the Government of the RSFSR as well as loans made without absolute guaranty of the Government.

5. The Government of the RSFSR may authorize the RSFSR Ministry of Finance or RSFSR Gosbank to borrow on its behalf with the absolute guaranty of the Government of the RSFSR.

6. RSFSR Gosbank shall be prohibited from granting credit to the Government of the RSFSR to finance a budget deficit, including the purchase of government securities at the time of issue.

7. In extraordinary situations the Chairman of the RSFSR Supreme Soviet may authorize RSFSR Gosbank to grant the Government of the RSFSR credit up to a term of five months, in the amount of not more than 5 billion rubles, at market terms.

Section III. Instruments of RSFSR Government Debt

8. Government borrowing may be in the form of credit, issue of short-term and long-term securities in rubles in the RSFSR or in foreign currency in the international market or with international organizations.

Treasury Bills

9. Treasury bills shall be issued by the Government of the RSFSR with maturity dates of 3, 6, 9, 12, 15, and 18 months, in the form of negotiable promissory notes (absolute obligation to pay a specified sum).

10. Treasury bills may bear face values of 10, 50, 100, 250, and 100,000 rubles.

11. Treasury bills are intended for placement with financial and lending institutions, with the exception of RSFSR Gosbank.

Bonds

12. The Government of the RSFSR shall issue government bonds for terms of 2-30 years in the form of negotiable or other debt obligations.

13. RSFSR Government bonds shall pay regular fixed interest.

14. The Government of the RSFSR may issue combination bonds with payment of interest and lottery payouts, with a fixed interest rate, and with other terms and conditions.

15. Interest on government bonds shall be paid once every 6-12 months, by coupon, through banks named in the statement of terms of bond issue.

16. Negotiable instruments placed with enterprises may differ from securities placed with the public or with public organizations, in denominations and terms of issue.

Bonds intended for placement with the general public shall be in denominations of 25, 50, 100, 500, and 1,000 rubles.

Bonds intended for placement with legal entities shall be in denominations of 10, 100, 500, and 100,000 rubles.

Section IV. Management and Administration of RSFSR Government Debt

17. The general rules and procedures of issue and trading of government negotiable instruments, management and administration of government debt shall be determined by the RSFSR Ministry of Finance.

18. A Council on Government Debt, comprising the Minister of Finance (chairman), one of his deputies, the Director of RSFSR Gosbank, and other persons by decision of the Chairman of the RSFSR Council of Ministers, shall be formed under the RSFSR Ministry of Finance for the purpose of working out general policy in the area of government debt.

19. RSFSR Government Securities may be placed by RSFSR through banks, auctions, and on the basis of an agreement with a group of banks.

20. RSFSR Gosbank shall perform, free of charge, technical operations pertaining to the placement, repayment, and servicing of RSFSR government debt.

21. The Government of the RSFSR shall be empowered to issue government debt obligations above and beyond budget requirements for the purpose of monetary and credit regulation.

22. RSFSR Government securities may be freely traded in the markets and may be acquired by foreign legal entities and natural persons, unless stipulated otherwise in the terms of the loan.

Section V. RSFSR Government Debt Repayment (Consolidation) Fund

23. A government debt repayment (consolidation) fund shall be established within the RSFSR State Budget for the purpose of paying interest and repaying government obligations.

24. The Government of the RSFSR shall determine the sources of financing and replenishing the RSFSR Government Debt Consolidation Fund.

25. No loan shall be repaid later than in 60 years time, including all refinancings. Each year an amount equal to 0.016 of the entire amount of debt ($0.016 \times 60 = 1$) shall be allocated in the budget, plus funds for making interest payments.

Section VI. RSFSR Government External Debt

26. A decision to obtain foreign credit shall be made by the Government of the RSFSR within the framework of the overall government debt limit approved by the RSFSR Supreme Soviet.

27. Centralized hard-currency resources of the RSFSR shall constitute the source of repayment of government external debt.

28. The RSFSR Ministry of Finance shall determine the general rules and procedures for management and administration of RSFSR government external debt, shall maintain records on obtained and issued government credit, and shall conduct negotiations with foreign creditors.

29. RSFSR Gosbank, or another bank by decision of the Government of the RSFSR, shall serve as agent to manage and administer external government debt.

Section VII. Debt of Autonomous Republics, Other Parties to Federation, and Local Authorities

30. All autonomous republics, other parties to federation, and local authorities shall be empowered to issue debt obligations for the purpose of financing their expenditures.

31. Terms and conditions of local loans shall be determined in consultation and coordination with RSFSR Gosbank or its agencies.

A loan issue sequence may be established.

32. Official external borrowings by autonomous republics, other parties to federation, and local authorities shall not exceed limits specified by the RSFSR Ministry of Finance on the basis of the overall RSFSR Government debt limit.

Specific borrowings may not be undertaken on terms worse than borrowings by the Government of the RSFSR.

33. The Government of the RSFSR shall bear no liability for the borrowing of other agencies of government, with the exception of instances where corresponding guarantees have been issued.

Section VIII. Registration of Loans

34. The RSFSR Ministry of Finance shall maintain a register of all securities and loans of the Government of the RSFSR.

Section IX. Official Limit to Growth of Government Debt

35. The RSFSR Supreme Soviet, concurrently with adoption of a budget for the coming year, shall approve absolute and relative limits to growth of RSFSR Government debt in rubles and in foreign currency.

36. Relative limits to growth of government debt shall be specified as a percentage of the nominal value of the gross national product of the RSFSR.

Draft Law of the Russian Soviet Federative Socialist Republic on Corporations and Joint-Stock Companies

This Law shall define the general legal and economic principles of organization of corporations and joint-stock companies [aktsionernyye obshchestva] on the territory of the RSFSR in conditions of development of a market economy.

This Law seeks to provide for the development of a diversity of forms of ownership, shall define the rights, responsibility and liability of stockholders in the conduct of business activities, and shall regulate relations within a corporation or joint-stock company and with government administrative agencies. This Law shall operate in combination with other laws of the RSFSR and USSR.

Section I. General Provisions

Article 1. The Corporation or Joint-Stock Company and Its Principal Tasks

1. An association of legal entities and natural persons organized on the basis of voluntary consent, for the purpose of deriving profit, shall constitute a corporation or joint-stock company (henceforth to be called "company").

2. Companies shall be formed voluntarily for the conduct of any and all types of business activities, reflected in the application for forming the company, with the exception of those activities which are prohibited by laws of the USSR and RSFSR.

3. Companies shall be formed without restriction or limitation on duration of existence unless stipulated otherwise in their bylaws.

4. Companies constitute legal entities, shall have a company name and company logo or trademark, and shall have a circular seal bearing its name and registered trademark.

When necessary, a company may have an official abbreviated name.

5. Companies shall possess total independence in matters of determining form of management, adoption of business decisions, marketing, pricing, wages, and distribution of net profit.

Exercise of influence by the state on the activities of corporations and joint-stock companies shall be accomplished via taxes, determination of minimum wage, and establishment of prices for certain products.

6. Companies may maintain offices and branch operations on the territory of the USSR and abroad, and may participate in the capital of other companies.

Article 2. Types of Corporations and Joint-Stock Companies

1. A company may be open or closed, a fact which is reflected in its bylaws. Stock shares of an open company may be transferred from one person to another without the consent of the other stockholders. The stock shares of a closed company may be transferred from one person to another only with the consent of the other shareholders.

2. Limited-liability companies shall operate in the RSFSR, that is, the stockholders shall be liable for the company's obligations to the extent of their individual share of the company's capital.

3. A company shall not be liable for the obligations of its stockholders.

4. A company shall bear liability for its obligations with all its assets (in its entirety).

Section II. Establishment of a Corporation or Joint-Stock Company and Filing Procedures

Article 3. Establishment of a Corporation or Joint-Stock Company

1. Both natural persons and legal entities may constitute founders of corporations or joint-stock companies. Foreign legal entities and natural persons may participate as founders if this is not in conflict with USSR and RSFSR laws currently in force.

2. Companies based on state enterprises shall be established pursuant to the Statute on Transformation of State Enterprises into Joint-Stock Companies.

3. The date of the meeting of incorporation shall constitute the date of establishment of a corporation or joint-stock company, under the condition of compliance with the manner and procedure of its conduct and filing of its bylaws.

4. The number of founders shall not be fewer than three in the case of a "closed company" or more than 10 in the case of an "open company" (this shall not apply to state enterprises being converted into joint-stock companies).

5. Founding documents shall include the application to form a company (henceforth to be called the Application), a copy of the proceedings of the meeting of incorporation, and the company's bylaws (henceforth to be called the Bylaws).

6. The Application shall be drawn up by the founders in conformity with this Law and shall be submitted to the RSFSR Ministry of Finance or its agencies not later than 30 days prior to holding the meeting of incorporation.

7. The Application shall contain: the name of the company, its official location, the purposes for establishing the company (a detailed list of all stockholders, capital stock, the names and addresses of the founders, and the number of shares of stock acquired by them).

8. The Application shall be signed by the founders and shall be notarized. The Application shall constitute a formal contract between the founders.

9. If the proposed name of a new company already appears in the register, the agency registering the company shall notify the founders of this fact no later than 10 days prior to holding the meeting of incorporation.

Article 4. The Company's Bylaws

1. Corporations and joint-stock companies shall operate on the basis of Bylaws, which shall be drawn up in conformity with this Law. Matters falling within the jurisdiction of the state shall be governed by appropriate laws of the USSR and RSFSR.

2. The Bylaws shall contain all the principal characteristics of the company: type of company, object and purpose of its activities, makeup of participants (founders), company name and location, amount of capital stock,

information on categories of shares of stock being issued, their nominal value, relationship between stock shares of different categories, number of shares acquired by the founders, consequences of failure to carry out stock share redemption obligations, manner and procedure of distribution of profit and indemnification for business losses, structure and authorities of company management, manner and procedure of management decision making, including a listing of matters on which unanimity or a qualified majority of votes is required.

Article 5. Corporation or Joint-Stock Company Meeting of Incorporation

1. All founders or their authorized representatives must be present at a meeting of incorporation in order for it to be legally valid. Decisions shall require a three fourths majority of the votes (one share of stock equals one vote).

2. Those present shall elect a chairman to preside over the meeting by a simple majority vote.

3. The meeting of incorporation shall approve the company's Bylaws and shall elect a board of directors.

4. A notarized copy of the proceedings of the meeting of incorporation, in addition to a copy of the Bylaws and the Application, must be filed.

Article 6. Registration of a Company

1. Registration of a company shall be performed by the RSFSR Ministry of Finance, on the basis of an application to form a company, submitted 30 days prior to the meeting of incorporation, as well as on the basis of the Bylaws, a copy of the official proceedings of the meeting of incorporation, and a statement of payment received for 25 percent of the stock shares, submitted no later than 30 days after the meeting of incorporation.

2. A one-time filing fee shall be charged, to cover the cost of registration, to be paid at the time the application is submitted. The filing fee shall be non-refundable if the application is rejected. A differentiated fee amount shall be established by the RSFSR Ministry of Finance, depending on the capital stock of the company filing for registration.

3. The RSFSR Ministry of Finance shall publish an official republic register of officially-registered and dissolved companies.

4. Joint-stock banks and other lending institutions shall be registered by RSFSR Gosbank, in compliance with this Statute and banking laws and shall be entered in the union and republic register of corporations and joint-stock companies following registration by RSFSR Gosbank.

5. Companies with the participation of foreign legal entities and natural persons shall be registered by the RSFSR Ministry of Finance, in compliance with this Law and other laws of the USSR and RSFSR, and shall

be entered in the register of corporations and joint-stock companies following their registration by the RSFSR Ministry of Finance.

6. Registration agencies may not demand additional documents from the founders beyond those named in this Law.

7. Registration shall be performed within 30 days from the time the final documents are submitted. Registration may be refused only in case of violation of the prescribed manner and procedure of establishing a company of the type in question. A decision to reject a registration application may be appealed before an arbitration body and before a court of law. A certificate of registration shall be issued to the registering company by the appropriate agency.

8. A company shall report changes in its bylaws to the registration agencies within 15 days after adoption of a change.

Section III. A Company's Capital Stock

Article 7. Forming a Company's Capital Stock

1. Capital stock at the moment of establishment of a company shall consist of an agreed-upon number of shares of common stock, in a multiple of 10, all shares to bear the same nominal value.

2. A company's capital stock shall be not less than 10,000 rubles for a closed company and shall be not less than 100,000 rubles for an open company.

3. Payment shall have been made for not less than 25 percent of stock shares by the moment of a company's registration. Payment shall be made for one half of the stock shares during the first year of company operations.

4. With agreement among the founders, initial contribution to capital in the amount of a specified number of stock shares may be made in the form of buildings, other structures, equipment, and other items of value, as well as certificates of invention and property rights. The value of property contributed to capital shall be determined by agreement among the company's participants.

Article 8. Manner and Procedure of Changing Capital Stock

1. A general meeting of stockholders may, when necessary, by a simple majority vote:

- increase the capital stock, regardless of whether all other stock shares have been paid for, in case of expansion of the company's activities;
- consolidate or split existing stock shares into shares of greater or smaller nominal value;
- cancel stock shares which had not yet been purchased at the time the decision was made;

—reduce capital stock in case of reduction of company operations.

A decision to alter capital stock shall go into effect from the moment such decision is made by a general meeting of stockholders, under the condition that notification is made to registration agencies in the established manner and procedure.

2. Unplaced company stock shares shall remain at the disposal of the company's directors and may be sold by them at a price not less than the face value.

3. A demand that stockholders submit payment for those shares for which payment has not been received shall be made by the company's directors as needed and must be carried out within 15 days time.

4. Interest shall be charged by the company for stock shares payment for which has not been received by the stipulated deadlines, and subsequently interest shall be collected in conformity with the company's bylaws.

Section IV. Stock Shares

Article 9. General Description of Stock Share

1. A share of stock is a share in a company's capital stock.

2. The face value of a stock share shall not be less than 10 rubles.

3. A company may issue stock shares of different types and of different face value.

4. A company may issue only registered stock shares, that is, stockholders shall be recorded in a special register to be maintained by the company.

Article 10. Types of Stock

1. A company may issue common (with the right to vote) and preferred (without the right to vote) stock.

2. A share of common stock has one vote at a meeting of stockholders and shall participate in distribution of profit after replenishing reserves and paying out fixed dividends.

3. A share of preferred stock has no voting right but is entitled to fixed dividends and is entitled to priority over common shares in distribution of company earnings and if the company liquidates.

In case there are no earnings or if earnings are insufficient to pay a dividend on preferred shares, payment shall be made from reserve funds.

Preferred stock shall be issued in an amount not to exceed 10 percent of the company's capital stock.

Article 11. Registration of Stockholders

1. Each company shall maintain a register of stockholders, which shall contain the following information:

number and type of shares, date of acquisition, name and address of stockholder, face value and purchase price.

2. A company may delegate registration of stockholders to a bank or legal organization.

3. Stockholders shall give prompt notification of a change of address. The company shall not bear responsibility in case of failure to give such notification.

4. A transaction for the purchase and sale of stock shares and bonds shall be formalized by filling out a standard form, and with the signatures of the parties and the broker. If one of the parties is a bank licensed to trade in securities, the transfer of ownership documents shall be witnessed by two signatures. Final settlement on the transaction, transfer of documents to the purchaser, or issue of new certificates shall be executed and witnessed within five business days.

Article 12. Certificate of Stock

1. A certificate of stock constitutes evidence of ownership of a specified number of company stock shares by the person named on the certificate.

2. A stockholder shall be issued free of charge one certificate for all shares belonging to him if full payment has been made. Additional certificates shall be issued for a specified fee.

3. A certificate shall bear the following: certificate number, number of shares, face value, name of issuer, status of issuer, capital stock of issuer, type of stock, name of owner, number of votes, dividend amount (per share of preferred stock); the signatures of two company officers, the company's seal, conditions of trading, name and address of the company and documents registrar, and name of agent bank (on the reverse side).

4. Transfer of a certificate from one party to another shall signify execution of a transaction and transfer of right of stock ownership only if the transaction is properly recorded.

5. A lost certificate shall be replaced for a fee.

Section V. A Company's Borrowed Capital

Article 13. Description of Borrowed Capital

1. A company's borrowed capital shall consist of debentures with maturities of more than one year.

2. A company's debt obligation in the form of a negotiable instrument, stipulating payment of the face value at an agreed-upon time, and agreed-upon interest annually, shall constitute a debenture bond.

3. Debenture bonds may be issued in an amount not exceeding total capital stock.

4. The issue, registration, and trading of debenture bonds shall be governed by the RSFSR Law on Securities Trading and Securities Exchanges.

Article 14. Types of Debenture Bonds

1. Bonds may be registered bonds or bearer bonds. A bearer bond shall contain the following: number, face value, interest rate, name of issuing company, total amount of loan, conditions, manner and procedure of interest payment.

2. A company shall maintain a special register of owners of registered bonds.

Article 15. Rights of Bondholders

1. Bondholders shall have a priority over stockholders to a company's distributed earnings and assets on liquidation.

2. A lost registered bond shall be replaced for a fee.

3. In case of loss of a bearer bond, it shall be replaced in a manner and procedure established by RSFSR rules of civil procedure for restoration of right to lost bearer instruments.

Section VI. Company Financial Activities

Article 16. Company Profit

1. The balance-sheet profit and net profit of a corporation or joint-stock company shall be determined in the manner and procedure prescribed by the RSFSR Law on Taxes on Enterprises, Associations, and Organizations.

2. A company's net profit (after payment of taxes) shall remain at the disposal of the company and, by decision of the stockholders, shall be redistributed among them in the form of a dividend or shall be transferred to reserves.

3. A company's balance-sheet profit shall be taxed in conformity with RSFSR laws on taxes on enterprises, associations, and organizations.

Article 17. Dividend

1. A dividend is that portion of a company's net profit (after taxes) which is distributed among stockholders according to the number of shares held.

2. A dividend may be paid quarterly, semiannually or annually. An interim dividend shall be announced by the board of directors and shall be a fixed amount. A year-end dividend is announced at the annual meeting of stockholders and is based on the year's financial performance, taking into account payment of interim dividends.

3. The amount of year-end dividend per share of common stock shall be determined by the general meeting of stockholders at the request of the company's board of directors. A dividend may not be greater than

that recommended by the board of directors, but it may be reduced by the general meeting of stockholders.

4. A fixed dividend on shares of preferred stock and interest on bonds shall be established upon their issue.

5. A dividend shall not be paid on shares which have not been issued or which are on the company's balance sheet.

6. A dividend may be paid in stock shares (capitalization of earnings), in bonds, or in goods, if so prescribed by the company's bylaws.

7. An agent bank or the company itself shall be designated to pay out dividends (the general procedure shall be established by regulations of the RSFSR Ministry of Finance).

8. A company shall declare the dividend amount on a before-taxes basis.

9. A Company or its designated agent bank shall serve as agents of the state in collection of taxes and shall pay out dividends to stockholders after deducting appropriate taxes.

10. A company may guarantee stockholders a minimum dividend.

11. The manner and procedure of paying out dividends shall be stipulated at the time of issue of the securities in question and shall be specified on the back of the stock share or certificate.

12. There shall be no interest on unpaid or unreceived dividends.

13. Stock shares acquired not later than one month prior to the date of dividend payment shall be entitled to dividend.

14. A dividend shall be paid by check, draft, or postal money order.

Article 18. Reserves

1. A company shall establish reserves required for its operations, in the amount of not less than 10 percent of capital stock. The manner and procedure of utilization of reserves shall be specified by the bylaws.

2. Amounts to be transferred into the reserve fund shall be specified by the meeting of stockholders, but prior to such time as it reaches 10 percent of capital stock, it may not be less than five percent of total net profit.

Article 19. Stock Options

1. A company, in conformity with its bylaws or by decision of the stockholders, may offer employees the right to purchase a specified number of shares of stock at favorable conditions (stock option).

2. A company, in conformity with its bylaws, may designate a certain percentage of after-taxes profit to be distributed among employees, including in the form of cash or stock.

Article 20. Financial Accounting

1. The fiscal year for companies shall run from 1 January through 31 December.

2. A company's annual meeting must be held not later than three months after the end of the fiscal year and shall approve the year's fiscal performance.

3. The company's annual financial report and balance sheet shall be published, in a form approved by the RSFSR Ministry of Finance, within one month after the annual meeting.

4. Before an annual report is submitted to the annual meeting of stockholders, it shall be examined and certified by an auditing firm designated by the stockholders.

5. A company and its officers shall bear responsibility for the correctness of the information contained in the annual report.

6. A company shall publish each quarter and send to its shareholders a company balance sheet, profit and loss statement, as well as other current information.

Section VII. Company Management

Article 21. Meeting of Stockholders

1. The general meeting of stockholders shall constitute a company's highest managing body. The general meeting of stockholders shall be exclusively empowered to change the company's bylaws and capital stock, to elect directors, to approve the company's annual fiscal performance, to distribute profit, to establish and dissolve subsidiary enterprises or branch operations, and to dissolve the company.

2. Once each year a company shall hold a general annual meeting of stockholders, separate and apart from other meetings. Time between successive general annual meetings may not exceed 15 months.

3. All meetings other than the annual general meeting shall constitute special meetings.

4. Special meetings shall be called by a company's board of directors, by the audit committee, or by stockholders holding not fewer than 10 percent of total shares.

5. Written notification of the calling of a meeting must be sent to a stockholder not later than 30 days before the date of the proposed meeting, by registered letter, to the address indicated in the register of stock shares. By decision of a meeting of stockholders, notification may be done by placing an announcement in a specified newspaper.

6. Notification of a special meeting shall contain a formulation of the matter to be discussed.

7. Notification shall be sent to all stockholders who have paid all fees on common stocks, as well as to the company's auditor.

8. Stockholders possessing common shares shall have a vote, at one vote for one share.

9. The annual meeting of stockholders:

—shall approve the board of directors report, the annual statement of financial position, profit and loss statement, and distribution of earnings, including year-end dividend;

—shall elect directors and other company officers;

—shall designate an auditor and shall specify his compensation.

10. The meeting of stockholders is legally empowered if at least one half of the stockholders or their lawfully-designated representatives are present (based on number of shares).

11. The chairman of the board of directors or his deputy shall preside at the meeting. In the case of their absence, one of the board of directors, selected by the members of the board, shall preside. If the members of the board of directors are absent or decline to preside, the meeting shall elect a presiding chairman from among the stockholders.

12. If a quorum has not been gathered within half an hour, a meeting called at the request of stockholders shall be dissolved. A meeting called by the board of directors shall be postponed to a time specified by the presiding officer (but not more than 30 days). A reconvened meeting shall be considered legally empowered, regardless of the number of stockholders in attendance.

13. By decision of those in attendance at a meeting at which there is a quorum, the meeting may be suspended for up to 30 days. Only items appearing on the original agenda may be brought up at the reconvened meeting.

14. Items brought up at a meeting may be settled by a simple-majority open vote (including without a count of votes), if the presiding chairman or no fewer than five stockholders (or their authorized representatives) or a stockholder holding at least 10 percent of shares do not demand a secret ballot, based on number of shares held.

15. In case of a tie vote, the presiding chairman shall cast the deciding vote.

16. A change in the bylaws and a decision to dissolve the company shall require a qualified three fourths majority vote of the stockholders in attendance. For all other matters a simple majority vote of stockholders in attendance is sufficient.

17. A stockholder or his proxy may attend a meeting only if all accounts have been settled for the shares he holds.

18. The proxy of a stockholder may vote at a meeting only if he is in possession of a duly-notarized written-authorization proxy.

19. When voting by show of hands, each stockholder in attendance shall have one vote, while when voting by secret ballot his number of votes shall be determined by the number of shares he holds.

20. The proxies of stockholders who are natural persons shall not take part in voting by a show of hands.

21. Proxies of legal-entity stockholders shall take part in voting by a show of hands.

Article 22. A Company's Directors

1. In the intervals between general stockholders' meetings, the board of directors shall function as the company's highest managing body.

2. The number of directors shall be determined by a general meeting of stockholders, but it shall be an odd number and shall not be fewer than five persons.

3. Only a stockholder or the proxy of a stockholder holding the number of shares stipulated in the bylaws may serve as a director.

4. Directors shall be elected to a term of two years and may be reelected an unlimited number of times.

5. Directors ending their term in office and persons nominated by the directors or stockholders may be placed in nomination for election at a stockholders' meeting. The intention to place a candidate in nomination for director shall be communicated in writing to the secretary of the company not later than one week prior to the date of the meeting, together with the signed consent of the proposed candidate.

6. A stockholders' meeting may increase the number of directors and may elect additional directors to perform specific functions.

7. A stockholders' meeting may not remove a director from office prior to the end of his term.

8. In the period between stockholders' meetings, the directors may appoint a director to fill a vacancy on the board. He shall step down prior to the next annual meeting of stockholders, but he may be reelected.

9. Directors shall maintain all their authorities regardless of the forming of vacant seats. If the number of directors decreases to fewer than three, a special meeting of stockholders shall be called.

10. During their term on the board of directors, directors shall be compensated for transportation and other expenses, and shall be paid a fixed sum, to be determined by a general meeting.

11. A representative of the employees, with the right to cast a tie-breaking vote, shall serve on the board of directors.

12. The directors' authorities shall include all company functions which do not come under the authority of the general meeting of stockholders in conformity with this statute, company bylaws, and decisions of the meeting of stockholders. Decisions made at a meeting of stockholders may not abrogate or set aside actions already performed by the board of directors which are not contrary to the bylaws.

13. A company's directors shall make decisions and organize their work activities at their own discretion. Unless otherwise stipulated, the presence of two thirds of the members of the board of directors shall constitute a quorum. In case of a tie vote, the presiding chairman shall cast the deciding vote.

14. A meeting of the board of directors shall be called by the chairman of the board or by any other two directors.

15. The directors shall elect a chairman of the board and one or more deputies for a term of two years. The chairman of the board or his deputy shall preside at meetings of the board. If neither has appeared by 15 minutes after the beginning of the meeting, the directors present shall elect a presiding officer.

16. A decision signed by all directors who are on the territory of the USSR at a given moment shall have equal force with a decision by the board of directors.

17. The board of directors may when necessary form committees made up of its own members and other company personnel for the purpose of dealing with specific matters.

18. Decisions by the board of directors which have been made in good faith shall remain in force if it is determined that the election of one of the directors involved violations of rules and regulations.

19. The directors shall ensure that a record of proceedings is kept of all general meetings of stockholders and meetings of the board of directors and that a record is kept of all decisions, debates, and appointments.

20. The board of directors shall hold meetings as needed, but not less frequently than once a month.

Article 23. Executive Directors

1. The meeting of stockholders shall appoint at least two executive directors from among the company's directors, to conduct the company's day-to-day affairs. One shall be designated the company's chief executive officer (president).

2. The executive directors and managers—who are in charge of the company's major subdivisions—shall form

the company's executive board as the company's principal executive body. The general manager or chief executive officer shall preside at meetings of the executive board.

3. In the intervals between meetings of stockholders and meetings of the board of directors, the executive board shall direct all the company's activities within the limits of its authority as specified by the Bylaws.

4. Meetings of the board shall be held as needed.

5. The general manager shall be empowered, without explicit authorization or explicitly-specified authority, to act on behalf of the company. Other members of the board shall act within the limits of authority given to them by the Bylaws or by decision of a general meeting of stockholders.

6. The general manager shall arrange for the keeping of minutes of board meetings. The record of proceedings shall be available at all times for inspection by the stockholders.

Article 24. Audit Committee

1. The general meeting of stockholders, pursuant to the bylaws, shall elect an audit committee to keep an eye on the company's fiscal activities, made up of stockholders. The members of the audit committee may not be members of the board of directors or executive directors.

2. Inspection activities shall be performed by the audit committee on the instructions of the general meeting, at its own initiative, or at the demand of stockholders representing more than 10 percent of total stock.

3. The members of the audit committee are empowered to require that the company's officers present all necessary documents and personal explanations.

4. The audit committee shall submit the results of such inquiries to the general meeting of stockholders.

5. In the absence of auditors, the audit committee shall reach its findings on the basis of annual financial reports and balance sheets, without which a general meeting of stockholders may not approve findings.

6. The members of the audit committee must demand the calling of a special meeting of stockholders if a serious threat to the interests of the company has arisen.

Section VIII. Dissolution and Reorganization of a Company

Article 25. Conditions of Dissolution of a Company

1. A company shall be dissolved:

—at the end of the term for the duration of which it was formed, if so stipulated in the Bylaws;

—by decision of a general meeting of stockholders;

—by decision of a court of law;

- at the petition of fiscal authorities, banks, or creditors in the case of company insolvency;
- at the petition of the RSFSR Ministry of Finance and its agencies in case of violation of incorporation or other laws (in the case of banks—at the petition of RSFSR Gosbank).

Article 26. Manner and Procedure of Dissolving a Company

1. Voluntary dissolution of a company shall be performed by a dissolution committee designated by the company, while compulsory dissolution shall be performed by the committee appointed by the court.
2. A dissolution committee shall assume all powers and authority to manage a company's affairs from the moment it is appointed. The dissolution committee shall appraise assets, determine creditors and settle accounts with them, as well as with the stockholders, shall prepare a liquidation balance sheet, and shall submit it to a meeting of stockholders and to the RSFSR Ministry of Finance and its agency with which the company is chartered.
3. Funds in the company's possession, including from the sale of property, following payment of final wages due, discharge of obligations to creditors, and settlement of accounts with the budget, shall be distributed among the stockholders.
4. Dissolution shall be considered completed and the company shall be considered as ceasing to exist from that moment when a corresponding entry is made in the government register.
5. Claims and legal actions against companies and between companies shall be examined by a state arbitration body and court of law, pursuant to the laws of the USSR and RSFSR.

Article 27. Reorganization of a Company

1. Reorganization of a company shall be carried out by means of merging, breakup, separation, takeover, and conversion.
2. When a company is reorganized, necessary changes are made in the bylaws and state register, while if dissolution occurs, an appropriate entry shall be made in the register.
3. When a company is reorganized, the totality of a company's rights and obligations shall pass to its successors.
4. Merger is accomplished by two companies exchanging controlling blocks of stock with subsequent conversion of the two stocks into a single stock, and with consolidation of balance sheets.
5. Breakup is accomplished by establishing two new companies from a single company, with division of balance sheets and capital, and with issuing of new stock.

6. Separation is accomplished by forming, on the basis of some one subdivision, a new company with its own balance sheet and capital. The first company continues to exist, with appropriate changes in its assets and liabilities.

7. Takeovers are accomplished by purchase of more than 50 percent of a company's stock, with the consent of the RSFSR Ministry of Finance. The acquired company may preserve an independent status. In case of purchase of 100 percent of the stock, the absorbed company may lose its autonomous status and its balance sheet shall be consolidated with that of the takeover company, and the structure of management will be changed.

8. Purchase on the market of more than 10 percent of a company's shares shall require the consent of the RSFSR Ministry of Finance. This provision shall not apply to a company's founders.

9. A company may be converted into a state, joint-venture, cooperative, or any other enterprise in conformity with the laws currently in effect and following the prescribed manner and procedure.

10. The manner and procedure of dissolution and reorganization of a company shall be established by the RSFSR Ministry of Finance.

Section IX. Subsidiaries, Branches, and Offices

Article 28. Subsidiaries

1. Companies may possess subsidiaries, offices, and branch operations on the territory of the USSR and abroad.
2. A company in which 50 percent of the stock plus one share has been acquired shall constitute a subsidiary company.
3. A subsidiary corporation shall function as an independent commercial establishment, and relations with the principal stockholder shall be based on the Bylaws and the applicable laws.

Article 29. Branch Operations, Divisions, and Offices

1. Branch operations, divisions and offices shall function as legal entities in conformity with provisions approved by a meeting of stockholders.
2. The establishment of branch operations and offices on the territory of the USSR shall be done in compliance with the terms and conditions specified by laws of the RSFSR.
3. A company shall provide its branch operations and offices with fixed and working capital.
4. The establishment of branch operations and offices abroad shall be governed by the laws of the USSR and RSFSR.

5. Branch operations and offices shall maintain their own balance sheets, which shall comprise part of the company's balance sheet.

6. Branch operations and offices shall be liable for the company's obligations, and companies shall be liable for the obligations of the former.

Section X. Audit

Any company may hire, at its own expense, a specialized organization to examine, verify, and affirm its annual financial report (independent audit). The auditor shall affix his signature to the annual report with an affirmation that it is in agreement with available information on the actual state of affairs.

A company internal audit shall be performed by the audit committee.

RSFSR Draft Law on the Circulation of Securities and Stock Markets

This law regulates the general bases of the functioning of securities in the RSFSR and the principles governing the organization and activity of stock markets and brokerage firms.

The purpose of the law is to invigorate commercial activity, to guarantee equal conditions for the activity of economic entities regardless of the forms or types of ownership.

The law operates in conjunction with other laws of the RSFSR and USSR and autonomous republics.

Section I. General Provisions

Article 1. Principles of Circulation of Securities

1. The circulation of securities in the RSFSR promotes the mobilization and optimum use of financial resources through their redistribution among juridical and physical persons on a commercial basis.

2. Any securities issued in the RSFSR by state agencies, joint-stock companies, and other juridical persons in accordance with legislation in effect may be traded on the market.

3. Any Soviet juridical and physical persons may be sellers and purchasers of securities, including joint and foreign enterprises registered in the USSR. The participation of foreign juridical and physical persons in operations with securities is regulated by legislation of the USSR and RSFSR.

Article 2. Types of Securities

1. The present law extends to stock and bonds issued in accordance with the Law on Joint-Stock Companies.

2. The law does not extend to the stock of enterprises and work collectives issued in accordance with Decree No

1195 of the USSR Council of Ministers issued 15 October 1988, nor to certificates of USSR Sberbank.

3. The law extends to the bonds of internal republic loans, treasury bills, and also bank certificates of deposit unless this contradicts current legislation and the terms and conditions of their issuance.

4. The rules governing the issuance and movement of promissory notes before adoption of the new legislation are regulated by Decree No 104/1341 issued by the Central Executive Committee and Council of People's Commissars on 7 August 1937.

Article 3. Primary Issue of Securities

1. Primary issue means the unrestricted sale of securities by their issuer (the borrower) to any willing juridical and physical persons (the investors) on purely commercial terms and conditions.

2. Stock to be placed with the founders of joint-stock companies is issued in accordance with the Law on Joint-Stock Companies.

3. Securities are issued for unrestricted marketing among juridical and physical persons on the following terms and conditions:

- the joint-stock company must be in existence for at least 3 years and must operate with a profit for at least 2 years;
- it must have charter capital paid in in the amount of at least 100,000 rubles and at least 10,000 shares of stock;
- the sum of the new (additional) shares of stock issued and bonds may not exceed the company's capital paid in;
- at least 25 percent of the capital paid in is offered for unrestricted sale;
- the price of the issue may not be more than 10 percent above or below the face value of the paper.

4. The procedure for primary issue of securities on the market presupposes the following:

- the filing of an application with the RSFSR Finance Ministry indicating the type of securities, the total amount, the dates of the proposed issue, and the name of the bank acting as agent;
- the issuance of prior permission by the RSFSR Finance Ministry within a month;
- publication of the prospectus of the issue containing certified information concerning the enterprise's performance, the members of the management, financial results, and the terms and conditions of the issue of securities in the form established by the RSFSR Finance Ministry. The company is accountable for the authenticity of the information conveyed in the prospectus;
- registration of the prospectus;
- the actual issuance.

5. The RSFSR Finance Ministry has the right to establish if necessary the sequence of issuance of securities in accordance with the number and aggregate value of applications and the condition of the market. The RSFSR Finance Ministry keeps a register of stock and bonds.

6. The primary issue of securities takes one of the following forms:

- placement of the paper through banks without public announcement among a restricted number of investors (private placement);
- public announcement through the news media of subscription for securities at the published price;
- the sale of the securities at auction on the basis of competing bids;
- placement of the securities through an organized market (exchange);
- sale of the total amount of securities to a bank or group of banks for subsequent resale.

7. Banks and firms in the securities trade may relinquish the placement of securities to guarantors and organizers under the following conditions:

- the bank purchases all the securities at the fixed price for subsequent sale on the market;
- the bank commits itself to buy the securities which have not been sold within a stipulated time;
- the bank commits itself to place the securities on the best terms without assuming specific financial obligations.

8. The level of the commission (minimum and maximum) received by the institution acting as intermediary in placement of securities is regulated by the RSFSR Finance Ministry.

9. Banks may join together to form ad hoc syndicates to perform a primary issue. In this case, the issuer designates one of the banks to be the principal organizer responsible for information and technical matters (filing the application and the distribution and issuance of certificates).

10. An issue of stock is permitted in which current stockholders have the prior right to buy.

Article 4. Secondary Trade in Securities

1. Secondary trade in stock and bonds is engaged in by banks and specialized firms and through their intermediation on a commercial basis. Transactions may be concluded between any juridical and physical person regardless of procedure, but the transaction is considered legal only after it has been duly formalized.

2. The RSFSR Finance Ministry publishes the list of securities recommended for secondary trade and also awards various ratings to securities as a function of the level of risk.

3. Securities are purchased and sold at the prices of supply and demand and in accordance with the rules of the organized market. The current prices of securities are quoted in the form of the total amount in rubles per share or per bond without deduction of the tax. Limits of price swings during the day are established on the organized market.

4. The bank or other intermediary must furnish sellers and purchasers full information about the real rate of income of a particular security, about dates and conditions, and about tax procedure.

5. Until the capital gains tax is adopted, profit in the form of the difference between the purchase and sales prices of a security is subject to the general tax on income of physical and juridical persons.

6. A purchase-sales transaction of stock and bonds is formalized by filling out the prescribed blank, which is signed by the parties and the intermediary. If one of the parties is a bank licensed to trade in securities, the document on transfer of the right of ownership is verified only by the signatures of the purchaser and seller. Special accounts are opened in the bank for settlement pertaining to securities. The final account for the transaction, the transfer of the securities to the claimant, or the issuance of certificates must be completed within 5 working days.

7. The purchase of more than 10 percent of the stock of a joint-stock company by one juridical and physical person requires permission of the RSFSR Finance Ministry and of more than 5 percent requires subsequent notification of the RSFSR Finance Ministry.

8. Securities may not be purchased and sold on credit.

9. Purchases of securities as of a fixed future date (payment in installments) and options (acquiring the right to buy or sell securities at a fixed price) are prohibited for periods longer than 3 months. The rules governing installment purchases and options are established by the RSFSR Finance Ministry and RSFSR Gosbank.

10. The conduct of transactions with securities using information obtained in a professional capacity or on a confidential basis is automatically prosecuted under the law.

11. The level of commissions for brokering secondary operations with securities is established by the RSFSR Finance Ministry.

12. A stamp duty of 5 kopecks is collected as a revenue of the state on every transaction involving securities regardless of the amount and type of securities.

Section II. The Organized Securities Market

The organized securities market exists in the form of the stock exchange and the interbank market.

Article 5. The Stock Exchange

1. The stock exchange or stock section of the commodity exchange is created by decision of local bodies of government in the form of a joint-stock company. The RSFSR Finance Ministry approves the charter of the exchange. The exchange operates on the basis of cost recovery, but does not pursue the objective of realizing profit.

2. The exchange operates within the limits of the charter, the present enactment, and the rules governing transactions issued by the RSFSR Finance Ministry; the RSFSR Finance Ministry publishes the model charter of the exchange.

3. The exchange furnishes participants in the market space, information, and a settlement system.

4. The activity of the exchange is financed by its sale of seats on the exchange, annual membership dues, and commissions on each transaction.

5. The members of the exchange may be banks and other financial and credit institutions, including those in which foreign capital participates, state agencies, and joint-stock enterprises issuing their own securities for unrestricted sale.

6. The stock exchange may establish requirements which must be met by its members.

7. Stock exchange members are divided into two categories:

- members who can conduct transactions on their own account and on the account of clients (they may only be financial and credit institutions);
- members who may conclude transactions only on their own account.

8. Trade on the exchange is confined to securities officially included in the quotation bulletin and securities whose issuers meet the following conditions:

- they have been in existence for at least 5 years;
- they have operated without a loss for at least 3 years;
- they have at least 300,000 rubles in capital;
- no more than 60 percent of the paid capital is in the hands of the founders (this provision does not extend to state enterprises transformed into joint-stock companies).

In any case, all securities must be on the list recommended by the RSFSR Finance Ministry for secondary trade.

9. The exchange may establish stricter requirements for the securities quoted.

10. Exchanges are managed by a board consisting of the chairman, vice chairman, secretary, and 9-11 members elected to a 4-year term, special committees for the most important aspects of exchange operation (the rules of

trade, membership, conflicts, business ethics, quotations, legal and foreign relations, and the press).

11. Settlement for transactions on the exchange is made through the exchange's clearinghouse.

12. Both primary issues of securities and also secondary trade may be conducted through the exchange.

13. The interbank securities market constitutes the totality of banking institutions and firms in the securities trade operating on the basis of Article 4 of this law.

Article 6. The Interbank Market

1. Securities recommended by the RSFSR Finance Ministry for secondary trade are permitted on the organized interbank market. The issuers of these securities must meet the following conditions:

- at least two banks or firms must consent to quote on an ongoing basis the asking and bidding prices (the notarized commitment is filed with the RSFSR Finance Ministry);
- existence for at least 5 years, operation without a loss for at least 3 years; capital of at least 200,000 rubles, and no more than 60 percent of paid-in capital in the hands of founders (does not extend to state enterprises which have been transformed).

Article 7. Institutions in the Securities Trade (Brokerage Firms)

1. Banks and other financial and credit institutions which have obtained a license from the RSFSR Finance Ministry may conduct transactions with securities. The requirements defined in the charter of the exchange must be satisfied for memberships of the exchange.

2. Specialized brokerage firms operating as joint-stock companies may be formed specifically to trade in securities, to act as intermediaries in organizing the issuing of securities, for consulting, and for analysis of market conditions. These firms are licensed and registered by the RSFSR Finance Ministry; the tax procedure adopted for commercial banks extends to them.

3. Banks, insurance organizations, organizations in the trade sector, and foreign economic organizations, and also foreign physical and juridical persons, may be founders of firms for the trade in securities.

4. Firms for the trade in securities must have at least 50,000 rubles of their own capital.

5. Banks and specialized firms may operate simultaneously on their own account and on the account of customers if there is no conflict of interest, provided they obtain a license.

6. The RSFSR Finance Ministry publishes the rules on the creation of firms for trade in securities, the model bylaws of such firms, and the procedure for obtaining licenses.

7. A one-time contribution of 5,000 and 1,000 rubles is collected for registration of the charters or bylaws of stock exchanges and firms for the trade in securities, respectively.

8. The RSFSR Finance Ministry collects a one-time tax of 500 rubles for issuing licenses to securities brokers during the 1st year of the broker's activity. In subsequent years of the life of the license, an annual payment is fixed in the amount of 0.1 percent of the turnover of securities operations performed by the broker, but not less than 500 rubles. For registration of each issue of securities issued by joint-stock companies, 500 rubles is collected.

Article 8. Regulation of the Securities Trade

1. The trade in securities, the activity of stock markets and firms for the trade in securities, and the entire securities market are regulated by the RSFSR Finance Ministry or other entities so authorized by the RSFSR Council of Ministers.

2. The RSFSR Finance Ministry oversees enforcement of this law, the Law on Joint-Stock Companies, the Regulation on Transformation of State Enterprises, and all other enactments related to joint-stock companies and securities.

3. The RSFSR Ministry of Finance in cooperation with the RSFSR Committee for Management of State Property and RSFSR Gosbank, within the limits of their jurisdiction, oversees adherence to legislation and circulation of securities.

4. The stock market, represented by its management, is accountable for adhering in its activity to current legislation, instructions of the RSFSR Finance Ministry, and its own charter.

5. The RSFSR Finance Ministry is entitled to collect a charge for a bank's use of data formed by assembling the reports of joint-stock companies and their applications for registration of securities.

6. The procedure governing the issuance and circulation of state securities is regulated by a specific law

Draft Regulation on the Committee for Management of State Property

I. General Provisions

1. The Committee for Management of State Property (hereinafter—the Committee) is a state organization that coordinates and monitors the transformation of state enterprises and the disposition and management of property transferred to it in accordance with the Annex to the Economic Union of Sovereign States.

2. The Committee for Management of State Property operates on the basis of the Regulation on Joint-Stock Companies, the Regulation on Transformation of State

Enterprises Into Joint-Stock Companies, the present regulation, and its own charter, approved by the Supreme Soviet.

3. The Committee and its components perform functions of property management with the rights of a stockholder or owner and is no way restricted in the exercise of those rights.

II. Functions of the Committee

The Committee performs the following functions:

4. Drafting and performance of the program for transformation of state enterprises into joint-stock companies.

5. Compilation of the list of enterprises to be transformed in accordance with the Annex to the Economic Union of Sovereign States.

6. Approval of plans and practical organization of the transformation of specific state enterprises into joint-stock companies.

7. Possession and disposition of state property for which the rights of ownership have been transferred to it.

8. Creation and liquidation of investment funds for performance of the functions of possession and disposition of state property and furnishing them blocks of stock.

9. With respect to joint-stock companies in which the state possesses more than half of the capital, the Committee and the investment funds, by its order, perform the following functions:

- appointment and dismissal of directors;
- granting of permission for new types of diversification of the activity of the company;
- approval of the results of the company's activity according to the results for the year and approval of the operations planned for the coming year;
- granting of permission for the issuance of new stock and debentures.

10. With respect to joint-stock companies in which the state owns less than half of the capital, the Committee and investment funds, by its order, operate as ordinary stockholders on the basis of the Law on Joint-Stock Companies.

11. With respect to all property and property rights aside from shares of stock, the Committee and investment funds, by its order, operate as full-fledged owners.

12. Development and exercise of the right to sell the stock belonging to the Committee. Coordination of the realization of this plan with the USSR Finance Ministry (the Agency for Oversight of Securities Transactions) and the USSR Reserve System.

13. Countering trends toward monopolization in the USSR economy by working out a procedure for transformation of state enterprises into joint-stock companies that takes this factor into account.

14. State property is managed and disposed of by the Committee and by investment funds, by its order, in the interests of the state.

III. The Board of the Committee

15. The Board of Directors, consisting of seven persons, including the chairman of the Board and his deputy, is the supreme body of the Committee.

16. The chairman, his deputy, and the members of the Board of Directors are appointed by the president of the USSR (Supreme Soviet) to a 5-year term.

17. The members of the Board of Directors do not have the right to be members of governments, people's deputies, members of central bodies of political parties, public organizations, or cooperative organizations, nor may they also have economic and other duties in other institutions and organizations.

18. The member of the Board has the right to resign if he disagrees with the actions of the majority.

19. The procedure followed in the work of the Board is defined in the Committee's bylaws.

20. By 1 October of each year, the Board of Directors files with the Supreme Soviet a report on the work it has done, the annual balance, and a program of action and estimated expenditures and revenues for the next financial year.

21. The financial year of the Committee is fixed from 1 January to 31 December.

IV. Structure of the Committee

22. The Committee sets up a staff to perform its functions within the limits of the funds intended for this purpose, and it also organizes consulting, scientific research, and other necessary departments.

23. The Committee appoints its representatives to take part in assemblies of stockholders and boards of directors of joint-stock companies for the purpose of managing state property. The Committee is accountable for the decisions made by its representatives.

24. The Committee may set up its own regional components if necessary.

25. The Committee creates sectoral and regional investment funds on a joint-stock basis, which are allotted blocks of stock of enterprises being transformed and which in the name of the Committee perform the functions of ownership and disposition with the rights of stockholders.

26. The principles governing distribution of the blocks of stock and the size of the charter capital of the investment funds are determined by the Committee in accordance with the plan for conversion of state enterprises to joint-stock companies.

27. The investment funds operate as joint-stock companies all of whose capital or more than half of whose capital belongs to the Committee, while the remainder belongs to other juridical and physical persons.

28. The investment funds operate on the basis of powers delegated to them by the Committee.

V. Financial Resources of the Committee

29. The Committee operates on the basis of a budget-estimate of revenues and expenditures annually approved by the Supreme Soviet.

30. The Committee's revenues consist of proceeds from the sale of stock and dividends from the stock of state joint-stock companies and the investment funds it has created.

31. The Committee's expenditures consist of the costs of maintaining the staff and offices, of organizing the process of conversion, of job placement of workers laid off from enterprises converted, and contributions to the capital of the investment funds.

32. The excess property of converted enterprises is turned over to the Committee, and should it be sold, the proceeds are considered its income.

33. In order to bring about normal starting conditions for the converted enterprises, all or part of their debt is transferred to the Committee.

34. The debts of a particular enterprise are settled by selling its stock and property turned over to the Committee.

35. Dividends and the surplus of revenues over expenditures related to a particular project are used to cover ordinary administrative expenses.

36. The net profit of the Committee is transferred to a special reserve until it reaches 25 percent of the aggregate debt of enterprises transferred to the Committee in the course of conversion.

37. The remainder of net profit after replenishment of reserves is transferred to the state budget.

38. Should resources be lacking to finance its activity, the Committee may receive a budget subsidy, may take credit, and may float a loan with bonds.

39. The investment funds function by order of the Committee exclusively on a commission basis. The commission rates are established by the Committee.

40. The investment funds are subject to the profit tax in accordance with established procedure.

Draft Regulation on the State Agency for Oversight of Securities Transactions

I. Preamble

1. The State Agency for Oversight of Securities Transactions (hereinafter—the Agency) is an institution of the state whose tasks are to regulate the securities market and monitor the creation and activity of joint-stock companies within the framework of current legislation of the RSFSR.

2. The Agency is accountable to the RSFSR Council of Ministers, which defines its powers. No later than 1 March of each year the Agency submits to the RSFSR Council of Ministers a report on development of the securities market and stockholding in the past calendar year.

3. The chairman and deputy chairman of the Agency are nominated by the chairman of the RSFSR Council of Ministers and approved for a 5-year term by the RSFSR Supreme Soviet.

II. Functions of the Agency

The Agency performs the following functions:

4. It follows up the execution of laws, regulations, and other normative acts concerning joint-stock companies and the circulation of securities. Jointly with the RSFSR Finance Ministry, it prepares legislative bills on matters related to the development of stockholding and the securities market.

5. It works out the rules governing accounting and compilation of the balance sheets of joint-stock companies.

6. It registers joint-stock companies and keeps the union-wide register of joint-stock companies.

7. In conformity with current legislation and jointly with the Committee for Management of State Property, it drafts the procedure for conversion of existing enterprises, associations, and organizations to joint-stock companies and also the procedure for creation of new joint-stock companies.

8. It drafts the rules for primary issue and performance of transactions with securities of joint-stock companies.

9. It publishes the list of securities of joint-stock companies recommended for secondary trading.

10. It defines the rules governing publication of the reports of joint-stock companies. Here, the Agency's points of departure are the system of reporting that exists in the USSR and RSFSR and also the standards generally accepted in world practice.

11. It issues permits to joint-stock companies to put securities into circulation. The Agency does not have the right to withhold permission if the joint-stock company has submitted all the necessary accurate information.

The Agency makes spot checks of the information submitted, but it is not accountable for its accuracy.

12. It issues licenses to banking institutions and specialized (brokerage) firms to operate as middlemen with the securities of joint-stock companies, and it also issues licenses for the activity of auditing firms. The issuance of a license may be refused solely on the grounds that the banking institution, specialized firm, or their staff members were previously convicted of abuses related to securities transactions.

13. It informs all participants in the securities market and state agencies of licenses for operations with securities issued and revoked.

14. It approves the charters of stock markets.

15. It exercises general supervision over the operation of stock markets.

16. It investigates violations of the rules governing trading in securities, it initiates court cases involving charges of intentional deception of stockholders and abuses in securities transactions.

17. It monitors mergers and takeovers of banking institutions and firms engaged in securities transactions in order to prevent monopolization of the rendering of brokering services.

18. It establishes the order of issuance of securities depending on the time of application and the state of conditions on the market.

19. It regulates the level of commissions which brokers realize in conducting securities transactions.

20. It issues permits for a single physical or juridical person to acquire more than 10 percent of the stock of a joint-stock company and it gathers information on transactions involving more than 5 percent of the stock.

III. Measures To Combat Abuses

The Agency invokes the following penalties:

21. Suspension or revoking of the license of a banking institution, specialized firm, or auditing firm to carry on the respective activity.

22. Fines which may be imposed both on banking institutions and specialized firms as well as on their employees.

23. The closing down of stock markets.

24. Notification of juridical and physical persons conducting securities transactions that they are not permitted to repeat actions they have committed which are fraught with violations of the rules governing the issuance and circulation of securities.

25. Initiation of court prosecution of persons guilty of violating the rules governing the issuance and circulation of securities.

IV. Financing the Agency's Activity

26. The Agency is financed from the RSFSR State Budget and from levies collected from joint-stock companies, stock markets, and other intermediaries conducting transactions with securities.

27. The Agency collects a one-time levy of 500 rubles for registering each securities issue issued by joint-stock companies.

28. The Agency collects a one-time levy of 500 rubles for issuing a license for brokering operations with securities valid for the 1st year of the broker's activity. In the subsequent years of the license's validity, the annual fee is set at 0.1 percent of the value of turnover of transactions with securities conducted by the broker, but not less than 500 rubles.

29. The Agency collects a one-time fee of 500 rubles for registering a joint-stock company and 1,000 rubles for registering the charter of a firm for trading in securities.

30. The Agency collects a one-time fee of 5,000 rubles for registering the charters of stock exchanges.

31. The Agency has the right to collect a charge for a bank's use of data developed in the Agency by assembling the reports of joint-stock companies and their applications for registration of securities issues.

32. As operations with securities develop and the number of joint-stock companies grows, the Agency is to set the levels of the fees it collects so that the corresponding proceeds cover budget financing.

33. The Agency may publish publications for sale on matters related to its activity.

V. Structure of the Agency

34. The Agency consists of the central headquarters and regional branches to be created as needed in the autonomous republics and large economic regions.

35. The headquarters of the Agency and its branches consist of functional departments: registration of joint-stock companies; registration of issues of securities of joint-stock companies; monitoring brokerage operations with securities; stock markets; mergers and takeovers; and the reporting of joint-stock companies.

VI. Coordinating the Activity of the Agency With Other State Institutions

36. The Agency interacts with the RSFSR Antitrust Committee on matters pertaining to mergers and takeovers of joint-stock companies. In conjunction with the RSFSR Antitrust Committee, the Agency has the right to prohibit the purchase of securities of a joint-stock company if it would result in formation of a monopoly.

37. The Agency coordinates with USSR Gosbank and RSFSR Gosbank, the Committee for Management of State Property of the USSR and RSFSR, and the RSFSR

Finance Ministry the handling of matters pertaining to the size of the issue of securities of joint-stock companies, and it has the right to place restrictions on the total issue during a quarter, half-year, or year in accordance with the principles of credit and monetary policy.

38. Issues of new state securities are not subject to the Agency's regulation.

39. Transactions with state securities are regulated by the Agency in accordance with the conditions of their issue.

40. No later than 1 January 1991 the Agency, taking into account the opinion of RSFSR Gosbank and the RSFSR Finance Ministry, must draft and adopt the following documents:

- Model Charter of the Stock Market;
- Rules Governing Creation of Stock Markets;
- Agency Rules Governing the Issuance of Licenses;
- Model Bylaws of a Securities Trading Firm;
- Procedure for Collection of Commissions for Brokering in Securities Transactions;
- Rules on Registration of joint-stock Companies, Stock Markets, and Issues of Securities;
- Model Bylaws of an Auditing Firm;
- Rules on Recordkeeping and Reporting in Joint-Stock Companies.

Draft Law of the USSR on Financial Liability of the Enterprise

The operation of a market economy presupposes unconditional performance of contracts, labor and other agreements, payment obligations, and other property obligations. The purpose of this law is to provide the legal basis of the accountability of entities doing business and coming under all forms of ownership for performance of those agreements. The effect of the present law extends to legally proper commercial obligations and payment obligations of physical persons.

This law takes effect simultaneously with the Law on Bankruptcy of Juridical Persons Bearing Full Liability and the Law on Reorganization and Bankruptcy.

Section 1. General Provisions

1.1. This law extends to enterprises coming under state, joint-stock, cooperative, private, or other (mixed) ownership, as well as to state or public organizations or their enterprises and entities operating on the territory of the RSFSR, including those which belong to citizens, enterprises, or state organizations of other union republics or foreign states.

1.2. "Enterprise" means an independent entity doing business with the rights of a juridical person, producing and selling products, doing jobs, rendering services. For state or public organizations and agencies, it means local soviets of people's deputies and their subdivisions, republic bodies of government and their subdivisions, republic and economic organizations which have the right to conclude any contracts for the delivery of goods,

the rendering of services, the furnishing of specific rights, the payment of money in the form of subsidies, pensions, rent, and procentual payments or delivery of particular commodities, services, or pieces of property in physical form.

1.3. All enterprises and organizations bear full financial liability under all contracts, payment obligations, and labor agreements, and other contractual obligations involving property.

Section 2. Assets and Liabilities of the Enterprise

2.1. The assets (property) of an enterprise consist of physical, financial, and nonmaterial assets:

a) physical assets:

- land (owned by the enterprise) or rights to its use;
- buildings and installations for production purposes;
- buildings and installations for nonproduction purposes: administrative buildings, residential, children's, educational, medical, convalescent, and other buildings or enclosed spaces which are on the balance sheet of the enterprise;
- production equipment installed and uninstalled;
- movable property for nonproduction purposes;
- stocks of raw materials, fuel, and intermediate products (in warehouses, shops, and en route), and finished products;
- property, fixed assets, buildings, and installations, plots of land, which have been leased;
- branches and subsidiaries which belong to the enterprise if they do not have the status of a juridical person and if their balance sheets are not separate from the balance sheet of the enterprise in question;

b) financial assets:

- cash; deposits in banks;
- deposits, checks, insurance policies;
- investments in state or private interest-bearing securities;
- obligations of other enterprises and organizations to make payment for products delivered (commercial credit), services rendered, under government programs;
- consumer credit;
- portfolio investments in the stock of other enterprises;
- blocks of stock of other enterprises conveying the right of control;
- membership shares or shared participation in other enterprises;

c) nonmaterial assets:

- trademarks, names, patents, know-how, and other types of intellectual property;
- rights to use resources.

2.2. Liabilities (obligations and sources of resources) of the enterprise consist of their own resources, borrowed resources, and resources obtained:

a) the enterprise's own resources, regardless of the form of ownership (except state ownership), consist of the following:

- personal savings, membership shares, and shares of cooperators;
- proceeds from the sale of primary and additional issues of stock;
- accumulated undistributed profit (reserves);
- the realized growth of the market value of securities;
- state resources allocated to the enterprise.

In the case of state enterprises—the state resources it has been allocated; accumulated deductions from profit;

b) borrowed resources consist of the following:

- resources obtained by putting up property as collateral regardless of whether or not a mortgage has been issued;
- resources from the sale of fixed-interest securities whether secured or not;
- resources obtained in the form of bank credits and credits from other credit institutions;
- credits of state bonds;
- bills and notes of various kinds;

c) resources obtained consist of the following:

- the enterprise's payables for deliveries of products or to pay for jobs or services;
- state subventions or subsidies;
- tax liability;
- indebtedness related to the enterprise's obligations under labor agreements;
- resources of pension funds or trade union funds of the work collective of the enterprise which have been invested in the enterprise in question.

Section 3. Obligations of Enterprises and Organizations Under Contracts

3.1. "Contract" means an agreement concluded voluntarily by two or more parties for the sale or delivery of products and commodities, for the performance of jobs and rendering of services, for the payment of money, for the granting of credit in one form or another, which is a legal document that has been properly drawn up.

3.2. A contract, agreement, or other understanding is as a general rule considered concluded if both parties have clearly expressed their consent in a personal meeting or by means of some form of communication. That agreement may be put in writing. Rejection of a verbal understanding may not be prosecuted under the law, but it is a violation of commercial ethics.

3.3. Fulfillment of contracts is mandatory. Violating contracts invokes the penalties stipulated in the contract. The enterprise is liable under contracts to the full extent of its assets.

Forfeits, fines, and other types of payments in the form of penalties are collected by arbitration by filing a claim

3.4. Both parties may appeal the decision of the arbitration body to a higher level of arbitration.

3.5. The party filing claims because of a breach of contract may also file suit in the established manner for the loss of income related to the breach of the contract. The arbitration body calls on experts in examining this suit and it may result in penalties and payment of the costs of arbitration.

3.6. In a case when a contract does not contain provisions concerning penalties, a party may file claims or file suit in the established manner for lost income on the basis of this law, but it may not claim immediate penalties.

3.7. In a case when a party files suit charging a malicious breach of contract, involving a violation not only of economic legislation, but also criminal legislation, the arbitration body may attach the assets, accounts, and documents of the relevant party for a period up to 3 months with the approval of the procurator.

Similar actions may be taken at the request of state regulatory agencies.

3.8. Should one of the parties be unable to perform its obligations under the contract, the suit for damages may be taken up by the arbitration body as initiation of a case of bankruptcy. In this case, the procedure for examination of the case is conducted under the Law on Reorganization and Bankruptcy. In this case, the arbitration body may attach assets, accounts, and documents of the enterprise which has violated the contract for a period not to exceed 3 months with the approval of the procurator.

3.9. Penalties for violating contractual obligations do not release the enterprise, without consent of the consumer, from fulfillment of obligations to deliver products, do jobs, or render services.

Section 4. Liability Under Agreements and Obligations

4.1. "Agreement or obligation" means the obligation of a state institution, enterprise, or individual to pay a certain amount of money, to do certain jobs, or to grant rights to the use of particular assets: plots of land, buildings or installations, housing, patents, and so on—drawn up in proper legal form.

An individual citizen, trade union, trade association, or other association of individuals may be a party to the agreement.

This section pertains in particular to labor agreements, pension agreements, the allotment of housing, and obligations related to workplace health and safety and the environment.

4.2. A suit for breach of an agreement or obligation not containing penalties in the form of fines may be accepted

by the arbitration body for consideration. Each party is liable to the full extent of its assets, if such exist, for meeting its obligations.

4.3. Refusal to perform under an agreement may result in its forced performance by decision of the arbitration body or recovery of losses from the assets of the party that has not fulfilled the conditions of the agreement.

4.4. A state organization's failure to fulfill an agreement when it has no assets may result in legal action for compensation against the superior organization.

Section 5. Liability of Enterprises and Organizations Under Payment Obligations

5.1. "Payment obligation" means a legal document for repayment within a specified period of an amount of money which has been loaned, payment of interest on it at fixed rates, and also the meeting of other conditions set down in the document.

The terms and conditions of the loan must be revealed to regulatory agencies at their request.

5.2. In general, the enterprise is liable to the full extent of its assets for its payment obligations. Failure to meet conditions set down in the document results in the transfer (conditional or unconditional) into the hands of the creditor of those assets which were entered in the contract as security.

Property or any assets set down in the loan agreement as security for the loan may not be alienated by the owner during the life of the contract. Should they be alienated, the creditor or regulatory agencies may request attachment with approval of the procurator of the assets, accounts, and documents of the debtor-enterprise, cancellation of transactions, and criminal action against the management personnel of the debtor-enterprise who approved the transaction.

5.3. Should the debtor be unable to fulfill all the conditions of the loan agreement within the stipulated time, but the contract contains no explicit indications about the property serving as collateral, the creditor may file suit with the arbitration body in the established manner to recover the amount of the unpaid loan and interest and reimbursement of lost income.

5.4. In case of the debtor's refusal or inability to pay the principal of the debt or to provide regular payments of interest, the creditor may take action with the arbitration body to initiate bankruptcy proceedings. In this case, the case is taken up in accordance with the procedure of the Law on Bankruptcy and Reorganization. In this case, the assets, accounts, and documents of the debtor-enterprise may be attached by the arbitration body with the approval of the procurator for a period of 3 months with an extension to commencement of the hearing of the case in the arbitration body.

5.5. If there is evidence of malicious breach of payment obligations, the arbitrator may attach the assets,

accounts, and documents of the enterprise for a period not to exceed 3 months with approval of the procurator. The same actions may be undertaken on representation of regulatory agencies.

Section 6. Procedure for Collection of Fines, Forfeits, and Other Penalty Payments

6.1. Unconditional penalties for breach of contracts, withholding of tax payments, in the form of fines and forfeits set down in contracts or legislation, including tax legislation, are exacted by the enterprise itself by order of the arbitrator after presentation of the contract.

In case the enterprise refuses to pay the penalties indicated above, the arbitration body collects them by freezing the current account of the enterprise and transferring the amounts necessary to the parties entitled to them under the contract.

The party against whom the arbitration body has imposed penalties may appeal their legitimacy, but the appeal does not stay their effect. It may file suit in the established manner for reimbursement of lost income, which is taken up in a similar manner.

6.2. Should funds be lacking in the accounts of the enterprise that has violated contracts and other agreements and obligations and also current inflow for a period of 3 months, the arbitrator may conduct an audit of the enterprise's finances.

The audit is conducted by the auditing department of the USSR Finance Ministry or the Tax Inspectorate. The audit identifies liquid assets, movables, or other assets which in their estimated value and form might satisfy the claims of the party that has filed suit with the arbitration body. In this case, an agreement between the parties is possible.

If the party that has violated the contract or other agreement refuses this method of resolving the dispute or if there are no such assets that might satisfy the other party, the arbitration body must initiate a case under the Law on Bankruptcy and Reorganization.

6.3. If an enterprise has violated a debt agreement, legislation concerning the payment of taxes, or several suits or a class suit have been initiated for breach of contracts, obligations, or understandings, the arbitration body must attach the assets, accounts, and documents of the enterprise with approval of the procurator.

The actions of the arbitration body in this case correspond to Articles 3.7, 3.8, 5.4, and 5.5 of this law. In all these cases, the arbitration body must appoint a liquidation commission, which conducts a financial audit of the enterprise and which must identify and appraise all the assets and obligations of the enterprise. While that commission is doing its work, the enterprise, as represented by its top management bodies and/or the owners, may not conclude any transactions or contracts without permission of the commission. The enterprise may sell or purchase assets and conduct loan transactions only

with permission of the arbitration body at the instance of the liquidation commission.

Should it be impossible to identify the assets capable of meeting the claims of the plaintiff (creditor), the arbitration body must initiate proceedings under the Law on Bankruptcy and Reorganization.

Draft Law of the USSR on Bankruptcies of Juridical Persons Bearing Full Liability

Freedom of entrepreneurial activity in the context of a market economy presupposes strict financial accountability of all juridical and physical persons for their payment obligations. The purpose of a law on bankruptcy is to put order in the property relations and debt relations between entities doing business on the basis of the personal and private form of ownership, a lease, a partnership bearing full liability, which have in common the full liability of the owners for the obligations of the enterprise or personal (individual) obligations.

With respect to personal (individual) ownership, the law embraces relations between physical persons engaged in self-employment and private enterprise or conducting transactions of whatever kind to acquire property, goods, or services or lending operations, i.e., acting as a juridical person in concluding transactions.

Cases of bankruptcy of juridical persons of this kind are given the same treatment as cases of enterprises by the arbitration body or special tribunals in rayon (oblast) courts.

This law is being adopted simultaneously with the Law on Financial Liability of the Enterprise and the Law on Bankruptcy and Reorganization.

Section 1. General Provisions

1.1. All juridical persons bearing full liability in accordance with the bylaws of their enterprise are liable with their property (with the exception of property mentioned in Article 3.4) for the obligations of their enterprise. Physical persons concluding debt agreements are liable to the full extent of their property for all obligations except property mentioned in Article 3.4.

1.2. The debtor's inability to meet the conditions of the payment obligation initiates examination of the case of bankruptcy in the arbitration body or special tribunal.

1.3. The purpose of the examination in the arbitration body is to satisfy as fully as possible the claims of creditors and to declare the debtor free of debt.

1.4. Hearings on the case are conducted in public. Regulatory agencies are notified of commencement of the case's consideration: the Tax Inspectorate, the Anti-trust Committee (in a case of reorganization). The news media are notified of the commencement of the case in the interests of actual or potential creditors.

Section 2. Initiation of Bankruptcy Proceedings

2.1. A case of bankruptcy may be initiated in case of the inability or refusal of a debtor to perform the conditions of the payment obligation promptly and in all respects. The filing of a written action by the creditor or creditors constitutes initiation of the case.

The filing of claims exceeding 10,000 rubles may serve as the basis for initiating proceedings. Should the payment obligations be secured, these amounts pertain to the net indebtedness: to the amount by which the indebtedness exceeds the amount of collateral.

2.2. A case of bankruptcy may be initiated on petition of the debtor himself. His filing of a petition with the arbitration body constitutes commencement of the proceedings. In order to file a petition with the arbitration body, the debtor need not be insolvent at the moment when the petition is filed.

2.3. Creditors submit evidence to the court of the legitimacy of their claims. After examination, the court rejects or honors them and determines the amount of the claim.

2.4. At the disposition of the court, the debtor may continue any business activity, including the acquisition, sale, and use of property at his own discretion.

2.5. Once the case is opened, the arbitration body may in the interests of an interested party transfer the right of disposition of the debtor's property to a trustee who has no interest in the case—a physical or juridical person (its representative), to whom the arbitrator or court entrusts disposition of the debtor's property for the purpose of payment of his debts.

In the case of a voluntary petition of the debtor, the court immediately appoints a trustee to manage the property. The trustee performs the duties of a representative of the board of a partnership bearing full liability or the chairman of the workers' council of lessees and in agreement with the arbitrator may appoint his own accountant.

The arbitration body may entrust management of the property to the debtor, to the management of the partnership, or the management of the collective of lessees.

2.6. The debtor may put up the collateral designated by the court (comparable in value to the size of the claim) and in return receive the right to manage his own property.

2.7. Once the hearing of the case begins, the trustee or debtor identifies that property which was collateral when the loan was made and unconditionally passes into the hands of creditors when the debtor violated the terms of the payment obligation in accordance with Article 5.2 of the Law on Financial Liability of Enterprises.

If there is a threat of loss of value of the collateral or the collateral constitutes an amount of cash, by demand of

the creditor and decision of the arbitration body or trustee, the debtor must pay the full amount of the collateral or a portion of that amount.

The arbitration body or trustee may use the collateral in the form of money to finance the normal operation of the enterprise if otherwise there is a threat it might shut down.

2.8. If the claim is rejected, the arbitration body may collect court costs from the plaintiffs as well as amounts that it determines to reimburse the loss suffered by the debtor because of the action.

Section 3. Debtor's Rights and Duties

3.1. The debtor is required to submit to the arbitration body a complete list of his creditors and also a detailed balance sheet of assets and liabilities, a report on his financial condition; to help the trustee in exercising the rights granted by the court and to supply him all necessary information that is contained in books, accounts, and documents; and to attend the hearing of the case.

3.2. The debtor may request that the case be examined in the form of the debtor's liquidation or reorganization.

3.3. Once the case has begun, once the trustee with the help of outside experts has appraised the assets of the debtor and audited all his obligations in accordance with Articles 2.1 and 2.2 of the Law on Financial Liability of the Enterprise, the arbitration body can order an inventory.

This results in formation of the debtor's property for discharge of payment obligations (the claims of the creditors), which includes all his assets, inventories, and personal property with the exception of property mentioned in Article 3.4.

3.4. The property of an individual debtor (private businessman, member of a partnership bearing full liability, lessee) does not include the following:

- housing (apartment or separate dwelling) with a value up to 10,000 rubles;
- household effects: furniture, books, collections, animals, musical instruments—the value of each not to exceed 500 rubles;
- jewelry with a value not to exceed 1,000 rubles;
- tools of an occupation with a total value not to exceed 2,000 rubles;
- insurance policies of all types with a value not to exceed 5,000 rubles;
- income from pensions and rights to obtain various payments.

3.5. In a case of bankruptcy of a partnership bearing full liability or a leasing collective, the debtor's property consists of all the assets of the partnership or the "own" property of the leasing collective, as well as the aggregate of their personal properties after deduction of the property mentioned in Article 3.4, for each member of the partnership or leasing collective.

Persons working for a wage in the partnership or collective of lessees do not bear financial liability for the debts of their enterprise.

Section 4. Liquidation of an Enterprise

4.1. Once the arbitration body has ordered transfer of the management of the debtor's property to the trustee, the arbitration body appoints the time and place of a meeting of the creditors. The arbitrator, judge, and members of the arbitration body or tribunal may not attend that meeting.

4.2. The meeting is considered legal if the creditors represented at it with the right to vote represent at least 50 percent of the total amount of obligations.

The creditor has the right to vote in the meeting if he is the holder of claims against the debtor recognized by the court, if he is not a relative of the debtor, and if he has no other interest in the particular case.

The meeting of creditors may elect a committee numbering between three and seven persons who are the holders of the main unsecured claims against the debtor, and that committee would exercise the necessary oversight over the activity of the trustee.

4.3. The meeting confirms the authority of the trustee appointed by the court or proposes to the court another disinterested trustee. In the latter case, the consent of the arbitrator is required for his appointment.

In case the trustee resigns or for other reasons is unable to perform his duties, the meeting of creditors may propose another trustee.

In case of disagreement between the arbitrator and the meeting of creditors, priority in appointment of the trustee remains with the meeting of creditors.

The trustee is considered elected in the meeting of creditors if he has obtained more than 50 percent of the votes of those attending the meeting.

The activity of the trustee is considered completed after the case is closed and payments have been made to the creditors.

4.4. The duties of the trustee consist of the following:

- management of the debtor's property;
- study of the condition of his property;
- study of the soundness of the claims against the debtor;
- within 2 months he must confirm or cancel all contracts and leases; if they are not confirmed within 2 months, they are considered canceled;
- prepare the liquidation plan;
- carry out liquidation of the debtor's property in the interests of the interested parties;
- furnish the necessary information on the debtor's property and his financial condition to the arbitration

body, to creditors, to state monitoring and tax agencies, and to other interested persons;

- prepare the final report on conduct of the liquidation and submit it to the arbitration body.

4.5. The rights of the trustee in carrying out liquidation are as follows:

- to cancel any sale of the debtor's property that occurred within 3 months before the case was opened or during 1 year if it was transacted in the interests of a relative of the debtor;
- to cancel any transaction for the sale of property or his assumption of obligations incurred within a year before he has petitioned for voluntary bankruptcy if they were done in order to conceal property and evade payment of debts; if the debtor has received in the transaction substantially less than the reasonable price of property; if the debtor was already insolvent at the moment when the obligation was assumed or the transaction was made or became insolvent as a consequence of it;
- the trustee may not cancel a transaction or assumption of obligation if the transaction was equivalent in nature or the obligation was discharged within 2 months following the transaction;
- with consent of the arbitration body, the trustee may take credit for conduct of business, including credit secured with property.

4.6. The plan for liquidation of the enterprise must contain the list of the debtor's property and method of its sale, the procedure for satisfying the claims of the creditors, and the size of the remuneration of the trustee.

4.7. Upon completion of his activity, the trustee receives remuneration from the amounts paid to the creditors, the size of which depends on the size of the amount given to them.

Section 5. Reorganization of an Enterprise

5.1. At any moment in time before the actual sale of the debtor's property begins, at the request of any of the parties the arbitration body must transfer consideration of the case from Section 4 (liquidation) to Section 5. Reorganization of the debtor's assets and obligations is done in order to preserve the enterprise as an economic entity along with full or partial satisfaction of the claims of creditors.

5.2. Following the decision to examine the case of reorganization of the enterprise, the arbitration body forms a committee of creditors consisting of from three to seven of the most important holders of payment obligations and appoints a trustee to manage the debtor's property.

The arbitration body may turn over management of the property to the debtor or management of a partnership, but a trustee is appointed as financial inspector.

The committee of creditors monitors the activity of the trustee or the debtor and inspector.

5.3. The rights and duties of the trustee conform to Articles 4.4 and 4.5.

5.4. The trustee acting as financial inspector exercises the necessary oversight over the debtor's activity.

5.5. The plan for reorganization of an enterprise and its debt may be submitted by the debtor and also by the trustee or committee of creditors if the debtor has not submitted such a plan within 2 months after the case is opened.

5.6. The plan for reorganization contains a plan for sale of a portion of the property in order to meet the claims of creditors, distribution of payment obligations by groups: secured obligations, payments under employment contracts and other contracts and tax obligations, obligations bearing a fixed rate of interest, bank loans, etc.—and to guarantee equal treatment of the claims in each group.

Under the reorganization plan, every creditor must receive an amount against his claim at least as great as he would have received if the debtor's property had been liquidated.

5.7. The plan for reorganization of a partnership bearing full liability and a collective of lessees must envisage exclusion of the personal property of their members from the property of the debtor to be sold in order to satisfy the claims of the creditors.

5.8. The plan is considered adopted if it has received the votes of at least half of the creditors representing two-thirds of the aggregate amount of the claim.

5.9. The plan is subject to approval of the arbitration body, whereupon the interested parties may object to its approval.

The plan is considered approved if it meets the requirements of Articles 5.6 and 5.7 and does not violate any other legislative acts.

5.10. After approval of the plan, the creditor's property included in the plan is considered free of any other claims.

At the request of an interested party, within a period of 6 months after approval of the plan the arbitrator may revoke any decision if it has been made on the basis of false information.

5.11. The arbitration body may transfer consideration of the case from Section 5 to Section 4 on the basis of a request of the debtor and the impossibility of proposing or carrying out a reorganization plan.

Section 6. Closing of the Case

6.1. After completion of the case, the arbitrator determines the costs and expenses incurred to preserve the debtor's property, including payments for services and taxes to which the debtor's property was subject. These

and the court costs are paid at the expense of the debtor during liquidation or reorganization.

6.2. In a case of liquidation of property, the debtor receives a written release from obligations immediately following transfer of management of his property to the trustee. Regulatory agencies are so notified: the Tax Inspectorate, the Securities Agency, Gosbank, or the agency monitoring the activity of commercial banks.

A debtor does not receive release from obligations in this case if he has:

- concealed or transferred to another person a portion of his property during the year before the case was opened;
- concealed or falsified the necessary report information, including books, accounts, and documents;
- submitted or used a false claim;
- failed to provide a satisfactory explanation about losses of assets;
- refused to submit to the decisions of the arbitration body.

The trustee or creditor may appeal the decision of the arbitration body releasing a debtor from obligations and may demand that the case be verified. If any of the grounds enumerated above is detected, the decision on release from debt must be reviewed.

6.3. The absence of a written release from debt deprives the debtor of the opportunity to use bank credit, to obtain state orders and subsidies, which effect the arbitration body notifies the relevant bodies and agencies.

6.4. The debtor receives the remainder of the value of liquidated property after satisfaction of the claims of creditors and the expenses of conducting the case. In case of liquidation of a partnership bearing full liability or a leasing collective, the remainder of the value is distributed among the members of the partnership in proportion to their shares or some other principle recorded in the bylaws of the partnership or the leasing collective.

6.5. In a case of reorganization, the debtor continues business activity. The arbitration body so informs the Tax Inspectorate, the Antitrust Committee, the Securities Agency, and the State Banking System.

6.6. In all cases, upon completion of the case the decision of the arbitration body in a bankruptcy case is published along with an indication of the nature of the case, the content of the liquidation or reorganization carried out, the amount of payment against obligations for each creditor, and the amount of the debtor's remaining assets.

Draft USSR Law on Enterprise Reorganization and Bankruptcy

This law regulates the processes of liquidation and reorganization of enterprises which come under the joint-stock form of ownership, partnerships with limited

liability, cooperatives, people's enterprises, and state enterprises, including those which have been transformed into the joint-stock form of ownership. It extends to all sectors of the economy except commercial and investment banks, stock markets, brokerages, and insurance companies.

The purpose of this law is to ensure the normal functioning of enterprises which are in a serious financial condition or are in need of reorganization, providing at the same time for the maximum possible security of the interests of creditors. Application of this law is not necessarily related to the inability of an enterprise or organization to make payments or its inability to meet its obligations under contracts and agreements. The law may be applied for radical reorganization of an enterprise in order to increase its efficiency. The law lays the foundation for carrying out degovernmentalization through the joint-stock form.

This law is being adopted simultaneously with the Law on Financial Liability of Enterprises and the Law on Bankruptcy of Juridical Persons Bearing Full Liability.

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Section 1. General Provisions

1.1. This law extends to enterprises which come under state, joint-stock (including limited liability partnerships), cooperative, or other (mixed) forms of ownership, which have been purchased by the work collective (people's enterprises), operating on the territory of the USSR, including small enterprises and enterprises belonging to foreign nationals or juridical persons.

1.2. The definition of the enterprise, of payment obligations, and of other obligations are furnished in the Law on Financial Liability of the Enterprise.

1.3. For the purpose of the present law, "regulatory agencies" means state agencies which have the power to monitor the activity of enterprises: the Committee for Management of State Property, the Tax Inspectorate, the Securities Agency, the Antitrust Committee, etc.

1.4. Liquidation or reorganization of an enterprise is a nontrial proceeding and falls in the jurisdiction of arbitration bodies or special economic courts (republic or oblast). No particular type of bankruptcy may be stayed except in the cases stipulated in this law.

1.5. The purpose of the hearing in the arbitration body or court is the maximum possible satisfaction of the claims of the creditors, declaration of the debtor to be free of debt, and assurance of the normal operation of the enterprise.

1.6. Hearings to commence and close a case are conducted in public. Regulatory agencies are informed of the commencement of consideration of a case. The news media are also informed of the commencement of proceedings in the interests of actual or potential creditors.

Section 2. Initiation of Proceedings

2.1. The enterprise or economic organization may become the subject of application of the procedures contained in this law if:

- it does not fulfill the conditions of a payment obligation in their full extent;
- a state enterprise is changing its form of ownership on the initiative of the management and work collective;
- the Law on Compulsory Financial Rescue of State Enterprises has been adopted;
- the Law on Degovernmentalization of State Enterprises has been adopted (see Section 12).

2.2. A petition to commence bankruptcy proceedings may be filed in the following cases:

- a debtor's inability or refusal to meet the conditions of a payment obligation promptly and in all respects;
- an enterprise or organization has been unable in the course of a calendar month to pay an amount of 5,000 rubles or more under a contract following a direct written demand;
- the value of an enterprise's assets has fallen below the value of its obligations.

If a single petition is filed, the amount of the claims must exceed the minimum of 50,000 rubles; grounds exist if there are at least three petitions, each of which exceeds 10,000 rubles. Should the payment obligations be secured, these amounts pertain to the net indebtedness: to the amount by which the indebtedness exceeds the amount of collateral.

Proceedings are initiated when the creditor or creditors file the written petition.

2.3. Bankruptcy proceedings may be initiated on declaration of the debtor himself. In this case, it is initiated by the management of the enterprise (see Article 5.1) by filing a declaration of voluntary bankruptcy:

- for state enterprises—by the director (and workers' council);
- for cooperatives and people's enterprises—by the chairman of the council after approval by the assembly of shareholders (members of the cooperative);
- for limited liability companies—by the chairman of the council of stockholders or a person who has authority under the bylaws to deal with these matters;
- by the management of an enterprise if there should be a sudden deterioration of the financial condition and an inability of the enterprise to meet its debts and contractual obligations.

Proceedings are initiated by the filing of a declaration of voluntary bankruptcy by the enterprise's management.

2.4. Creditors file with the arbitration body evidence of the legitimacy of their claims. After examination, the arbitration body rejects or acknowledges them and fixes the amount of the claim.

2.5. The debtor may continue to carry on any economic activity, including the acquisition, sale, and use of property, at his own discretion, until the arbitration body orders otherwise.

2.6. Once proceedings have been initiated, the arbitration body may in the interests of an interested party assign the right of the debtor's property to a trustee who has no interest in the case (Section 5).

In the case of the debtor's voluntary declaration, the arbitration body is required to appoint a trustee immediately.

The trustee performs the duties of the chairman of the council of stockholders or shareholders, the chairman of the cooperative board, or the director of the state enterprise, and in agreement with the arbitration body he may appoint his own bookkeeper.

The arbitration body may entrust management of the property to the management of the debtor-enterprise and appoint an auditor to monitor its activity.

2.7. The debtor may put up collateral designated by the court (comparable in value to the size of the claim) and recover the right to manage his property.

2.8. In a case when a claim is rejected, the arbitration body may exact court costs from the petitioning juridical person and may also exact amounts it fixes to reimburse the loss suffered by the debtor as a result of the claim.

2.9. If regulatory agencies initiate a case of excessive concentration or disloyal competition, examination of the case may be conducted using the procedures of this law.

2.10. Public notification of commencement of proceedings must contain the following:

- the name and address of the arbitration body or court;
- the name and address of the enterprise which is in the process of liquidation or reorganization;
- the immediate grounds for initiation of proceedings;
- notification of creditors and interested parties as to the time by which they may submit their claims;
- the name of the physical person or the juridical person temporarily empowered as trustee by the arbitrator;
- other essential circumstances of the case.

2.11. The arbitrator informs the following of the initiation of proceedings:

- the founding body or branch ministry (for state enterprises);
- the Tax Inspectorate;
- the Committee for Management of State Property;
- the Antitrust Committee;
- the Securities Agency;
- the bank inspectorate of Gosbank;
- the Ministry of Justice or prosecuting agency;
- the local (oblast) soviet;
- the State Register;
- the Ministry of Foreign Economic Relations, the USSR Board of Trade, and Vneshekonombank—in the case of enterprises which have the right to conduct foreign economic operations independently;
- republicwide associations of cooperators, lessees, private farmers, people's enterprises, and the relevant trade union.

2.12. When proceedings for liquidation or reorganization are initiated, all court cases and property disputes are terminated, and all debts of the enterprise are considered delinquent. All demands of a property or financial nature may from that moment be submitted to the enterprise only through the framework of the liquidation or reorganization proceedings.

Section 3. Property and Obligations of the Enterprise Being Liquidated or Reorganized

3.1. The property of the enterprise or economic organization is the movables and real estate in their possession (under their management or long-term use) and also rights which have an appraised value and property or rights which the state or state agencies have conveyed for use for an indefinite period.

3.2. The assets (property) and liabilities (obligations and sources of resources) of the enterprise are classified by types in accordance with the provisions of the Law on Financial Liability of the Enterprise.

3.3. All assets of the enterprise or organization, regardless of whether they have been indicated or not in the balance sheets of the enterprise and whether or not they had an appraised value at the beginning of liquidation or reorganization proceedings, are subject to the claims of the creditors or subject to the reorganization when the form of the enterprise's ownership is changed.

3.4. All the assets of the enterprise constitute the "debtor's property," which is subject to liquidation or reorganization.

Section 4. The Trustee

4.1. Liquidation and reorganization proceedings are conducted by a disinterested trustee, a physical or juridical person. The trustee is the head of the liquidation commission.

The functions of the trustee in these proceedings are as follows:

- to manage or monitor the activity of the enterprise;
- to analyze the enterprise's financial condition;
- to study the soundness of the claims against the debtor;
- to submit the necessary information on the enterprise's financial condition and its property to the arbitration body, to creditors, to state monitoring and tax authorities, and to other interested parties;
- to bring as close together as possible the interests of creditors and those of the owners of the enterprise;
- to satisfy the claims of creditors insofar as is possible;
- to prepare the final report to the arbitrator.

4.2. Trustees may or may not be staff members of the Committee for Management of State Property of the USSR or of the republic. In the latter case, they are licensed by the committee:

- physical persons—under the conditions defined by the Committee;
- juridical persons: auditing, consulting, and other companies which enjoy generally recognized confidence—under the conditions defined by the Committee. Juridical persons appoint a physical person from among the principal staff members of the company.

4.3. The trustee empowered by the arbitrator performs the functions of the head of the enterprise's management in the case when the latter has been removed. In this case, he may appoint his own bookkeeper and other persons to conduct the enterprise's affairs.

The trustee empowered by the arbitration body performs the functions of a financial inspector in the case when the management of the enterprise is continuing to perform its functions.

4.4. A temporary trustee is appointed by the arbitration body at the commencement of proceedings.

The permanent trustee may be appointed by the arbitration body or elected in an assembly of the creditors.

In case of disagreement between the arbitration body and that assembly concerning appointment of the trustee, the arbitration body retains priority.

4.5. If the arbitration body does not approve the liquidation or reorganization plan submitted by the debtor, or the debtor has been unable to propose such a plan over the course of 2 months since initiation of proceedings, the trustee himself or with the help of the committee of creditors (and the committee of stockholders) must submit such a plan.

If it is approved by the committee of creditors and adopted by the arbitration body, this plan is carried out under the direction of the trustee.

4.6. The trustee's activity is terminated after adoption of the liquidation or reorganization plan after he has submitted the final report to the arbitration body and after funds have been paid to the creditors, but no later than 3 months after the principal payment has been made.

4.7. After completion of his activity, the trustee (and liquidation commission) receives compensation from the amounts, depending on the size of those amounts.

In a case of reorganization, the trustee receives compensation calculated in accordance with similar principles.

Section 5. Rights and Duties of the Management of the Enterprise During Proceedings

5.1. From the standpoint of examination of this case, the management of the enterprise is considered to be the following:

- for a state enterprise—the director (general director);
- for a joint-stock company—the council of stockholders (board of directors) represented by its chairman (general director, president, or other authorized official who is the main representative of the stockholders between meetings of the stockholders);
- for cooperatives—the chairman of the cooperative;
- for mixed companies—the principal official who represents the interests of the owners;
- for enterprises being leased—the director;
- for people's enterprises—the director or chairman of the council of shareholders.

5.2. The management is required:

- to submit to the arbitrator or the court: a complete list of its creditors, a detailed balance sheet of assets and liabilities, a statement of financial condition, all necessary information contained in books, accounts, and documents;
- to assist the arbitration body and other parties in the exercise of their rights granted by the court;
- help the trustee to perform his duty;
- attend the hearing of the case.

5.3. The management of the enterprise may demand that the case be examined in the form of liquidation or reorganization at any time before adoption of the plan and commencement of its performance.

5.4. The management of the enterprise has the right to prepare its own plan for liquidation or reorganization of the enterprise and to submit it within 2 months after proceedings are initiated.

Section 6. Operation of the Enterprise Under Protection of This Law

6.1. From the moment when proceedings for liquidation or reorganization are initiated, the enterprise ceases to pay dividends, interest, rent payments, and lease payments, and property and income taxes.

The accrued amounts, should it be possible, are credited to special accounts under the control of the trustee and are later examined together with all the assets.

6.2. From the moment proceedings are initiated, the enterprise continues its ordinary economic activity. All contracts and agreements must be performed if this is possible. A change in the labor agreement or other agreement must be proposed by the trustee in the interests of the case and the interested party provided there is some weighty reason for this acknowledged by the arbitration body.

6.3. From the moment when proceedings are initiated, all obligations of the enterprise are considered filed (if the creditors have presented their demands properly), and the deadlines for settling all debts are considered to have passed. All current legal actions against the enterprise or organization related to ownership are stayed.

Following publication of announcement of initiation of proceedings, all demands against the enterprise concerning its property may be filed solely within the framework of the liquidation or reorganization proceedings.

6.4. In the course of 2 months it must confirm or cancel all contracts and leases; if they have not been confirmed within 2 months, they are considered canceled.

6.5. The arbitration body appoints or orders the assembly of stockholders (shareholders) and creditors to select a trustee to head the liquidation commission.

The trustee assumes the same rights of either the management of the enterprise or the financial inspector monitoring the activity of the enterprise.

6.6. The trustee forms the liquidation commission and conducts an analysis of the enterprise's financial condition.

6.7. The management of the enterprise with the approval of the trustee or the trustee, if he is acting as manager of the enterprise, may:

- cancel any sale of the debtor's property transacted during the 3 months before proceedings were initiated if it was made in the interest of an interested party on the side of the debtor and during 1 year in the interests of a creditor;
- cancel any transaction of the debtor to sell property or assume an obligation which took place during 1 year before proceedings were initiated if they were done in order to conceal property and evade the payment of debt; if the debtor has received in that transaction essentially less than the reasonable price of the property, if the debtor was already insolvent at the moment when the obligation was assumed or the transaction was made, or if he became insolvent as a result of it;
- the trustee may not cancel a transaction or assumption of an obligation if the transaction was equivalent in nature or the obligation was met within 2 months following the transaction;
- the trustee may with the arbitrator's consent take credit to conduct the affairs of the enterprise, including putting up as collateral those assets of the enterprise which have not been put up as security.

6.8. After proceedings have been initiated, the trustee and liquidation commission, with the help of experts called in, make an inventory and appraisal of the debtor's assets and do an audit of all his obligations in accordance with Article 2.1 and 2.2 of the Law on Financial Liability of the Enterprise.

This results in formation of the debtor's property to ensure the meeting of payment obligations (demands of the creditors), which includes all his assets and items of value whether indicated or not in the balance sheet.

Section 7. Rights of Creditors and Owners

7.1. Commencement of liquidation or reorganization proceedings signifies infringement of the rights of owners of the enterprise on behalf of the arbitration body (temporarily) and the owners of borrowed resources.

7.2. After proceedings have been initiated, the temporary trustee appointed, and the order to transfer management of the debtor's property into the hands or under the oversight of the trustee, the arbitrator designates the place and time of the assembly of creditors. The arbitrator, judge, or members of the court may not attend that assembly.

7.3. The assembly is considered proper to conduct business if it is attended by representatives of creditors with the right of vote who represent at least 50 percent of the total amount of obligations.

The creditor has the right to vote in the assembly if he holds a claim against the debtor recognized by the court and has no other interest in this case.

The assembly of creditors may choose a committee numbering seven persons or more who are holders of

unsecured claims against the debtor. The committee must represent the interests of all groups of creditors or holders of obligations.

7.4. The committee of creditors has the right, with the arbitrator's approval, to call in specialists for the following purposes:

- to exercise the necessary oversight over the actions of the trustee;
- to assist the effort of the arbitration body and the trustee;
- to make a check of the financial condition and commercial activity of the debtor;
- to take part in preparing the liquidation or reorganization plan of the trustee;
- to approve or not approve the plan submitted by the debtor or trustee.

7.5. The assembly confirms the authority of the trustee appointed by the arbitration body or proposes to the arbitration body some other disinterested trustee. In the latter case, the consent of the arbitration body to his appointment is required.

Should the trustee resign or should he be unable to perform his duties for some other reason, the assembly of creditors may elect and propose to the arbitration body some other trustee for approval.

In case of disagreement between the arbitrator and the assembly of creditors, the arbitration body retains priority concerning appointment of the trustee.

The trustee is considered elected in the assembly of creditors if he receives more than 50 percent of the votes.

7.6. Stockholders or shareholders of the enterprise may create their own committee to monitor the operation of the debtor and the work of the trustee.

The committee of stockholders or shareholders has the right to obtain all information on the financial condition of the enterprise and the actions of the trustee.

With permission of the arbitration body, the committee of stockholders or shareholders may have a more significant role in the proceedings.

7.7. Representatives of the work collective of state enterprises and joint-stock enterprises have the right to participate in the work of the committee of stockholders or shareholders.

7.8. In the case of proceedings for liquidation or reorganization of a state enterprise, the representative of the owner may operate with the rights of the committee of stockholders.

7.9. Representatives of regulatory agencies have the right to participate in the work of committees of creditors and

stockholders in order to guarantee that an acceptable plan is prepared for liquidation or reorganization.

Section 8. Plan for Liquidation or Reorganization

8.1. Within 2 months following initiation of proceedings the debtor may submit his own plan for liquidation or reorganization of the enterprise and for satisfaction of the claims of the creditors.

Should his plan not be approved by the creditors or not be adopted by the arbitration body within 2 months, the right to submit the plan passes to the trustee.

The trustee must submit a plan to the arbitration body and creditors within 1 month following the debtor's refusal to submit a plan (but not less than 2 months after proceedings have been initiated).

8.2. The plan prepared by any party to the proceedings must be based on the inventory of assets and audit of the obligations of the enterprise.

The plan must meet the following requirements:

- it must give a complete and objective picture of the financial and commercial condition of the enterprise;
- it must bring about conditions for maximum convergence of the interests of the creditors and those of the owners of the enterprise in order to arrive at their consensus concerning the plan;
- to the fullest possible degree it must satisfy the claims of the creditors in the order of the preferential classes of obligations;
- it must take into account the interests of the work collective;
- it must guarantee the normal operation of the enterprise (enterprises) following reorganization;
- it must take into account the requirements of the laws on competition and antitrust legislation.

8.3. Preferential classes of obligations of the enterprise are determined by the nature of the obligations:

a) payment obligations secured with collateral are recognized as first-class and are completely satisfied if that is possible;

b) the second class consists of contractual obligations involving payment for goods the enterprise has received, payment for jobs and services, payment of fines and penalties, payment of wages, pensions, and taxes, and also court costs in the given case, payment of the trustee, the liquidation commission, and the experts who have been called in;

c) the third class consists of unsecured obligations. The procedure for satisfying them is determined by a classification into subclasses:

- the demands of bondholders and holders of other types of securities issued for sale to individuals are satisfied first;
- payment obligations to private banks, including state banks, are in the second subclass;

d) stockholders or shareholders are in the fourth class, and distribution is as follows:

- holders of preferred stock are in the first subclass;
- holders of common stock, excepting stock belonging to committees for management of state property, are in the second subclass;
- stock belonging to committees for management of state property is in the third subclass.

8.4. The proposed plan is considered approved if it has received the votes of at least half the creditors, representing two-thirds of the amount of the aggregate claim recognized by the arbitration body.

Should there be difficulties, the vote may be conducted by classes of creditors (following the same rules) in order of descending preference. A plan accepted by the creditors is considered adopted by the stockholders or shareholders if two-thirds of the stockholders or shareholders actually voting have adopted the plan. The class of creditors who receive nothing under the plan are considered to be opponents of the plan.

8.5. Once the plan is approved by the creditors and stockholders or shareholders, it is adopted by the arbitrator, and at this point interested parties may object to its adoption.

The plan is considered adopted if:

- it meets the requirements of the present law and does not violate any other legislative acts;
- the arbitrator believes that after performance of this plan the enterprise will not within a short period of time have to resort once again to protection of the law.

The plan may be adopted if the creditors of at least one class has approved the plan, while distribution to the other classes meets the requirements of the law, in particular, classes of creditors descending the preferential scale and stockholders who receive nothing.

Section 9. Liquidation of the Enterprise

9.1. Proceedings in the form of liquidation may be initiated either by declaration of the creditors or by voluntary declaration of the enterprise's management. In the latter case, the arbitration body must turn over management of the enterprise to a trustee.

9.2. The plan for liquidation submitted by the debtor (management of the enterprise) or trustee must envisage methods of selling elements of assets with a view to maximum satisfaction of the claims of the creditors.

The liquidation plan may call for continued operation of the enterprise if this is compatible with the principal purpose of the plan.

9.3. The conduct of proceedings in the form of liquidation presupposes a mandatory complete inventory of assets and their revaluation.

9.4. At any time before the sale of assets established in the plan begins, the management of the enterprise may request that proceedings be conducted in the form of reorganization.

9.5. If conduct of proceedings in the form of liquidation has resulted in the enterprise being closed down, then the portion of assets which are proceeds from the sale of property is credited to special funds to provide financing for the retraining and job placement of personnel.

9.6. The remainder of resources obtained in the sale of the enterprise's property goes to stockholders or shareholders in proportion to the stock or share they possess or according to some other principle in the bylaws.

9.7. After proceedings have been completed and the plan for liquidation carried out, the enterprise is considered free of debt.

At the request of an interested party, the arbitrator may within 6 months following adoption of the plan revoke that decision if it was made on the basis of false information.

9.8. An announcement is published on the results of proceedings, indicating the following:

- the total result of satisfaction of the demands of creditors;
- whether or not the enterprise has been closed down;
- the conditions of the hiring or dismissal of personnel;
- whether or not the enterprise has been cleared of debt.

9.9. The same departments are informed of the results of liquidation proceedings as are informed of initiation of proceedings under Article 2.11.

9.10. Should the enterprise be shut down, it is deleted from the State Register.

Section 10. Reorganization of the Enterprise

10.1. The conduct of proceedings in the form of reorganization presupposes in the general case the possibility of continued operation of the enterprise. The initiation of proceedings by means of voluntary declaration of the management of the enterprise does not necessarily assume insolvency of the enterprise at the given moment.

10.2. The reorganization plan submitted by the management of the enterprise or the trustee must be aimed at satisfying the demands of creditors along with preservation of the existence of the enterprise.

Should it be impossible to achieve the latter objective, at the request of the debtor or trustee, the proceedings may be conducted in the form of liquidation.

10.3. The conduct of proceedings in the form of reorganization presupposes a complete inventory of the enterprise's assets, but it does not require mandatory revaluation of those assets.

10.4. When proceedings are conducted in the form of reorganization, the trustee figures as the head of the liquidation commission and as a rule the inspector of the financial and commercial activity of the enterprise.

10.5. The reorganization plan must contain ways of selling a part of the assets, changing the structure and the lines of economic activity of the enterprise.

Payments to each class of creditors must be no less than they might be in liquidation.

10.6. The reorganization plan is approved and adopted subject to general procedure (Section 8).

10.7. After the plan has been adopted and the reorganization carried out, the enterprise is considered free of debt.

10.8. An announcement is published on the results of proceedings, indicating the main content of the reorganization plan and the court decision.

10.9. The same departments are informed of the results of liquidation proceedings as were informed about initiation of proceedings (Article 2.11).

Section 11. Liquidation or Reorganization of State Enterprises

11.1. State enterprises may be liquidated or reorganized both in the general procedure by petition of the arbitration body by creditors or the management of the enterprise, and also by a decision on financial rescue made by a state agency.

11.2. In the case of liquidation or reorganization of a state enterprise, in arbitration proceeding the principal procedures of this law are observed with the following changes:

- the interests of the owner of the enterprise in proceedings is represented by a representative of the state agency authorized for that purpose;
- in case of prolonged insolvency of the enterprise, before arbitration begins, agreement must be reached among creditors, management entities, the management of the enterprise, and representatives of the work collective aimed at seeking a compromise solution with respect to the order of satisfaction of claims, the dates of their settlement, and the amounts (proportions) of payment of the claim, and a document stating the agreement must be submitted to the arbitration body;
- a representative of the Committee for Management of State Property, which is the trustee and head of the liquidation commission, must submit its own plan for reorganization or liquidation of the enterprise along with the management of the enterprise;
- in a case of prolonged insolvency, the impossibility of reorganizing the enterprise or the impossibility of drawing up a reorganization plan satisfactory from the standpoint of the creditors, the enterprise may be

liquidated by decision of the arbitration body;

- in the course of carrying out the plan for liquidation (reorganization) of the enterprise, the work collective has the prior right to purchase the enterprise's property.

Section 12. Transformation of State Enterprises Into Joint-Stock Companies

12.1. The transformation of state enterprises into joint-stock companies takes place in the form of reorganization proceedings in which the form of ownership is changed, and in the general case this is done without participation of an arbitration body.

The Committee for Management of State Property or its components (investment funds) receive special authority to conduct these proceedings in legislation to combine the role of representative of the owner and the trustee.

There are two forms in which the transformation to joint-stock companies may be performed: at the initiative of the management of the enterprise and work collectives or under the Committee's plan for conversion to joint-stock companies.

Both solvent enterprises and those which are insolvent at the moment are converted to joint-stock companies.

12.2. The conversion of solvent enterprises to joint-stock companies on their initiative is conducted in the form of reorganization (Section 10) without participation of an arbitration body, with the following changes:

- a representative of the Committee figures simultaneously as representative of the owner and also as the trustee;
- the role of the arbitration body in approval of the plan for conversion to joint-stock ownership is played by the Committee or the Fund;
- announcements are published concerning initiation and completion of the reorganization (by the representative of the Committee), but hearings are not held;
- committees of creditors are not created, the effect of obligations is not stayed, assets are not sold, the enterprise is not cleared of debt, and so on;
- the representative of the Committee, who possesses the rights of the trustee in acting as the financial inspector and head of the liquidation commission, takes an inventory of assets and obligations of the enterprise, analyzes the enterprise's financial condition, and takes part in working out the plan (and determining the price of the primary sale) for the sale of stock;
- the plan for conversion to joint-stock ownership and simultaneous reorganization is worked out by the management of the enterprise and submitted to the Committee for adoption;
- if there is no plan or the plan prepared by the management of the enterprise is unsatisfactory, the representative of the Committee must prepare his own plan;

- the plan for sale of a portion of the stock (set aside by the Committee or the Fund for the work collective) is prepared by the management of the enterprise jointly with the workers' council;
- the management of the enterprise and the work collective may restrict the pool of persons and organizations interested in purchasing the stock of the enterprise from the Investment Fund or Committee;
- the representative of the Committee figures as the guarantor of the interests of the work collective.

12.3. Conversion to joint-stock ownership of solvent enterprises according to the plan of the Committee (or Fund) is conducted in the form of reorganization (Section 10) without participation of an arbitration body, with the following changes:

- the representative of the Committee figures simultaneously as representative of the owner and as trustee;
- the role of the arbitration body in adoption of the plan for conversion to joint-stock ownership is played by the Committee or the Fund;
- announcements of the initiation and completion of the reorganization are published (by the representative of the Committee), but hearings are not held;
- committees of creditors are not created, the effect of obligations is not stayed, assets are not sold, the enterprise is not cleared of debt, and so on;
- the representative of the Committee, with the rights of the trustee in the role of financial inspector and head of the liquidation commission, takes an inventory of assets and liabilities of the enterprise, analyzes the financial condition of the enterprise, and takes part in preparing the plan (and determining the price of the primary sale) for the sale of stock;
- the plan for conversion to joint-stock ownership and simultaneous reorganization is worked out by the representative of the Committee (Fund);
- the plan for sale of a portion of the stock (set aside by the Committee or its Fund for the work collective) is worked out by the representative of the Committee (Fund) jointly with the management of the enterprise and with the workers' council.

12.4. In case of conversion to joint-stock ownership of an insolvent enterprise under the plan of the Committee or on the initiative of the management and the work collective of the enterprise, full proceedings are conducted under Section 10 (reorganization) with the participation of an arbitrator.

The representative of the Committee even in this case simultaneously plays the role of the representative of the owner and the trustee, prepares the plan for reorganization and conversion to joint-stock ownership, and figures as the guarantor of the interests of the work collective.

12.5. In a case of disagreement between the management of the enterprise or work collective as represented by its council with the plan for conversion to joint-stock ownership and reorganization of the enterprise, they may file

with the arbitration body a declaration of voluntary bankruptcy, which presupposes full application of the procedures of Section 9 (liquidation) of this law. In that case, arbitration of the content of the plan for conversion of the enterprise to joint-stock ownership in order to protect the interests of creditors is added to the general procedures of the liquidation proceedings.

Draft Law of the RSFSR on Foreign Investments in the RSFSR

Section I. General Provisions

1. Foreign juridical persons (including international organizations), individuals, and associations of individuals may be foreign investors in the RSFSR.

2. For the purpose of this law, "foreign investments (capital investments)" means:

- direct foreign investments are enterprises, banks and their branches (including those in which the foreign investors possess a controlling block of stock), buildings, installations, equipment, other movables, and real estate, and also property rights and rights to use natural resources in the RSFSR to carry on economic activity, which are the property of the foreign investors;
- portfolio foreign investments are securities (including stock which does not give control over the activity of the joint-stock company), bank balances, and insurance policies.

3. Foreign investors make capital investments on the territory of the RSFSR in accordance with this law and other legislation of the RSFSR in the following ways:

a) creation of joint-stock companies (including those in which state agencies, juridical persons, and citizens of the RSFSR have a share), subsidiaries with the rights of a juridical person, branches, representative offices, and other detached subdivisions;

b) acquisition of property, stock, and other securities;

c) acquisition of the rights to use land and other property rights, including acquisition of the right to concessions, either independently or involving juridical persons and citizens of the RSFSR.

Foreign investors also have the right to sell property, shares of stock (including that of joint-stock companies registered in the RSFSR) and other securities.

4. Juridical persons registered in the RSFSR which have foreign participation may in accordance with legislation in effect conduct operations over the territory of the RSFSR envisaged by Article 3 of this law.

A juridical person with foreign participation may create subsidiaries, branches, representative offices, and other detached subdivisions abroad, adhering to the conditions envisaged by legislation in effect in the RSFSR.

5. Juridical persons with foreign participation may on voluntary principles form on the territory of the RSFSR trade associations, concerns, consortiums, and other associations (including those in which juridical persons of the RSFSR participate) according to the procedure envisaged by current legislation.

6. A juridical person with foreign participation is guided in his activity by legislation in effect on the territory of the RSFSR regulating the analogous activity of juridical persons of the RSFSR, with the exceptions set forth in this law.

7. Foreign investments enjoy in the RSFSR full and unconditional protection by state bodies and agencies of the RSFSR. Their treatment may not be less favorable than the corresponding treatment established for the property and property rights of juridical persons and citizens of the RSFSR with the exceptions set forth in this law.

8. No discrimination whatsoever is permitted against juridical persons with foreign participation as compared to other juridical persons operating in the RSFSR.

9. Foreign investors are guaranteed reimbursement of losses incurred because of nationalization, expropriation or other measures which have an analogous juridical effect.

10. The compensation is paid by the entity of the state which made the decision resulting in the losses. Should such a decision be unlawful, it may be appealed in the courts.

11. The amount of compensation is determined in the amount of actual losses and is paid to the investor over a period of 3 months in the foreign currency in which the investments were originally made.

12. The RSFSR Ministry of Finance and other state agencies within their respective jurisdictions monitor adherence to current legislation by juridical persons with foreign participation.

Juridical persons are required to submit to those agencies the necessary reports and documentation concerning their activity.

Section II. Creation of Juridical Persons With Foreign Participation

13. Foreign investors may make investments on the territory of the RSFSR provided they are registered to carry on economic activity in the country of origin.

14. Joint-stock companies with participation of foreign investors are created on the territory of the RSFSR in accordance with the procedure envisaged by joint-stock legislation of the RSFSR.

15. The application for registration of a joint-stock company with foreign participation must include the feasibility study for creation of the juridical person, a

document confirming consent of the local body of government in whose jurisdiction the proposed site is located, and the draft of its bylaws.

16. Juridical persons with foreign participation created on the territory of the RSFSR are subject to mandatory registration in the RSFSR Finance Ministry and/or local bodies of government.

17. Joint-stock companies with more than 50-percent foreign participation and/or charter capital exceeding 50 million rubles are regulated by the RSFSR Finance Ministry in accordance with joint-stock legislation.

In other cases, registration is with local bodies of government.

18. Creation in the RSFSR of branches, subsidiaries, representative offices, and other separate subdivisions of foreign joint juridical persons is not restricted if their proposed activity is not prohibited or restricted by legislation.

19. Subsidiaries and branches of foreign juridical persons are registered with the RSFSR Finance Ministry or with the local body of government by its order.

20. Representative offices of foreign juridical persons (without the right to carry on commercial activity) are registered with local bodies of government.

21. A notarized application must be filed with the RSFSR Finance Ministry to create a subsidiary or branch of a foreign juridical person, its contents to be as follows:

- the name, status, and official address of the foreign juridical person that intends to create a subsidiary or branch on the territory of the RSFSR;
- information on the proposed activity and purposes of the subsidiary or branch and their location.

The articles of association of the foreign juridical person are appended to the application.

22. The RSFSR Finance Ministry is required to examine the application for creation of a subsidiary or branch of a foreign juridical person within 90 days.

A refusal of registration must be substantiated and may be appealed in the courts.

In a case when the application does not contain necessary information, within 30 days of submittal of the application the RSFSR Finance Ministry requests its submittal. In this case, the decision on registration is made no later than 60 days from the date when the information lacking is supplied.

23. Juridical persons with foreign participation are registered with local bodies of government in accordance with the procedure established by those bodies of government.

Data on registration of juridical persons with foreign participation are sent within 10 days to the RSFSR Ministry of Finance.

24. Data on registration of juridical persons with foreign participation are entered in a special register kept by the RSFSR Finance Ministry. A notice of registration is published in the press.

25. The contributions which foreign investors make to the capital of juridical persons being created with their participation and also in order to provide resources to branches, representative offices, and other detached subdivisions on the territory of the RSFSR may include money, movables, and real estate, rights to use land, water, and other natural resources, buildings, installations, equipment, and other property rights (including the right to use inventions and know-how).

The contribution of a Soviet participant to the capital of a joint-stock company being created jointly with a foreign investor may be made analogously.

26. By agreement among the participants in the joint-stock company being created jointly by Russian and foreign investors, the assessment of their contributions to the joint-stock capital may be made both in Soviet and also foreign currency.

27. The articles of association of the joint-stock company being created with the participation of foreign and Russian investors must foresee the specific obligations of the participants concerning the dates, extent, and procedure for presentation and appraisal of the contributions of each participant to the capital of the joint-stock company. The value of property put in by the participants in the joint enterprises as the contribution to joint-stock capital is calculated at the prices of the world market, and if such prices do not exist—by agreement between the participants.

If at the end of 1 year following registration there is no documentary confirmation of the fact that each of the participants has contributed 50 percent of the contributions indicated in the articles of association, the body registering that joint-stock company declares that it has failed and publishes a report on its liquidation for that reason. In cases when the amount of joint-stock capital exceeds 10 million rubles, the period of time for the participants to make their contributions to the joint-stock capital may be extended by decision of the RSFSR Council of Ministers.

Section III. Conditions Governing the Activity of Juridical Persons With Foreign Participation

28. A juridical person with foreign participation may perform any types of activity except those prohibited for foreign investors by legislative acts in effect on the territory of the RSFSR.

Certain types of activity, a list of which is determined by legislative acts in effect in the RSFSR, may be engaged in

by a juridical person with foreign participation only on the basis of special permits (licenses).

29. Banking, foreign exchange activity, insurance, and brokering on the securities market require a special license from the authorized state agencies of the RSFSR.

30. Juridical persons with foreign participation operate in the RSFSR in accordance with the tax legislation of the RSFSR.

31. Juridical persons with foreign participation are entitled to tax benefits established by legislation of the RSFSR for juridical persons of the RSFSR.

32. Juridical persons with foreign participation are entitled to the following additional benefits under the profit tax:

a) if the foreign investor has contributed a share of 20 percent or more in convertible currency or has invested more than \$500,000 U.S. or the equivalent in some other convertible currency, then 20 percent of the tax base is exempted from taxation for 10 years;

b) if the foreign investor's contribution to capital, paid in convertible currency, exceeds 30 percent, or \$1 million U.S., then 20 percent of the profit is tax-exempt for the first 5 years and 40 percent for the following 5 years;

c) if a juridical person with foreign participation meets the requirements of Subparagraphs a) and b) and is engaging in an activity included in the annex to this law or is operating in the Far East Economic Region, then during the first 5 years 100 percent of its profit is tax-exempt and 60 percent over the following 5 years.

33. Tax benefits are granted in the form of leaving the exempted portion of the tax at the disposition of the taxpayer.

34. If a juridical person with foreign participation meets the requirements of Article 32 [original reads "31"], Subparagraph a), then the RSFSR Council of Ministers has the right to grant broader tax benefits.

35. If a juridical person with foreign participation meets the requirements of Article 32 [original reads "23"], Subparagraph c), and reinvests the dividends, then the amount of the tax is reduced by the amount of tax that would have been collected on those dividends. The calculated amount may not be greater than the total tax deduction.

36. Property which a foreign participant has contributed to the capital of a juridical person is imported into the RSFSR without collection of customs duties. Property which a juridical person with foreign participation has imported for his own use may be entirely or partially exempted from customs duties in accordance with the procedure established by current legislation.

37. Soviet auditing organizations check the financial and commercial activity of juridical persons with foreign

participation for purposes of taxation. Should it be necessary, the enterprise is entitled to engage foreign auditing organizations.

38. Accounting and reporting in juridical persons with foreign participation on the territory of the RSFSR conform to the rules adopted in the RSFSR, and if they wish, to the rules in effect in the country where the foreign partner is located.

39. For purposes of balance-sheet appraisal and record-keeping, an enterprise with foreign investments converts foreign currency to rubles at the exchange rate of the USSR Reserve System.

40. A juridical person with foreign participation conducts financial, credit, and settlement operations in accordance with the procedure in effect in the RSFSR.

41. A juridical person with foreign participation conducts operations with foreign exchange in accordance with this law and other normative acts in effect in the RSFSR.

42. All foreign exchange expenditures, including the payment of profit, of a juridical person with foreign participation are covered out of its own income in foreign exchange, borrowed funds, and the purchase of foreign currencies for rubles in accordance with the RSFSR Law on State Currency Control in the RSFSR.

43. Foreign investors are guaranteed unhindered transfer abroad of amounts in foreign currency to which they are entitled as the result of profit distribution and also in connection with the sale of their entire share or part of their share in the capital of the juridical person, or when they withdraw from the juridical person or it terminates its activity. Nor is the transfer of foreign exchange abroad restricted in the case when it is acquired by the juridical person with foreign participation for rubles in accordance with the RSFSR Law on State Currency Control and Regulation in the USSR.

Should the juridical person terminate its activity, the foreign participant must discharge his obligations before transferring the resources to which he is entitled.

44. A foreign investor's contribution to the capital of a joint-stock company in convertible currency may be credited to the account of that company in the foreign exchange of the payment and may be used without hindrance by the joint-stock company to purchase machines and equipment necessary for its activity. The machines and equipment acquired in this way may be imported into the RSFSR without collection of import customs duties.

45. The profit of foreign investors and juridical persons with foreign participation realized in the RSFSR in rubles may be reinvested on the territory of the RSFSR and used in accordance with legislative acts in effect in the republic. To carry on this type of activity and also to pay for their own representative expenses in the RSFSR,

foreign investors and juridical persons with foreign participation may open and use ruble accounts in banks on the territory of the RSFSR. The treatment of those accounts is regulated in accordance with the RSFSR Law on State Currency Control and Regulation in the USSR.

46. A juridical person with foreign participation is entitled to establish the prices of its product on a long-term basis and also to establish the procedure for marketing its product on the Russian market and deliveries from that market. The juridical person with foreign participation pays for delivery of goods, housing, and other services on the territory of the RSFSR in rubles.

47. A juridical person with foreign participation is entitled to export its own products and import products for its own needs without a license.

The foreign exchange proceeds of a juridical person with foreign participation from exporting its own products remain entirely at its own disposition.

The juridical person with foreign participation exports and imports other products (jobs and services) subject to the regular procedure.

48. Normative requirements as to the quality, technical standards, protection of the consumer of goods and services, which are in effect in the RSFSR, extend to all juridical persons with foreign participation.

49. Production relations and employment relations at an enterprise with foreign participation, matters concerning the social development of the collective and the health of its members, are regulated by the management of the juridical person by concluding a collective agreement with the work collective and individual contracts with the workers.

A juridical person with foreign participation is accorded the right of independently deciding matters related to the conditions of hiring and discharge, the work schedule, and also the remuneration, and the granting of benefits, guarantees, and compensation to all workers of enterprises. These conditions may not be less favorable than those established for corresponding categories of workers and employees of state enterprises and organizations of the RSFSR.

50. The activity of trade unions in an enterprise with foreign participation is conducted on the basis of the relevant legislation in effect in the RSFSR.

51. Foreign nationals may be workers and employees of the juridical person with foreign participation and members of its management and supervisory board.

Matters concerning the hiring and work activity of foreign workers are agreed to in the individual contract with each of them. Wages foreign workers receive in foreign currency may be transferred abroad.

52. The social security of employees of the juridical person with foreign participation (except for the pension

coverage of foreign workers) is regulated by the norms of legislation in effect in the RSFSR.

53. Payments for the pension coverage of foreign workers of an enterprise with foreign investments are made by the juridical person to the respective funds of the countries where they live permanently (in foreign exchange and subject to the conditions of those countries).

A juridical person with foreign participation pays contributions for state social insurance of Soviet and foreign workers and deductions for pension coverage of Soviet workers at the rates established for Soviet enterprises and organizations.

54. Deductions for state social insurance of foreign workers of the juridical person are made by the latter only if those workers wish to take advantage of the respective forms of social insurance on the territory of the RSFSR.

55. The property and risks of the juridical person with foreign participation may be insured with insurance organizations at his discretion.

56. In case of termination of the activity of a joint-stock company in which a foreign investor has participated, he acquires the right to recover his share in the property of the company in the form of money or commodities at the residual value at the moment of termination following settlement of his obligations.

57. Bank guarantees may be issued to cover the obligations of the juridical person to a foreign partner arising out of the latter's participation in the capital of the juridical person.

58. The property of a juridical person with foreign participation may be used by that person as collateral for all types of its obligations, including the taking of loans. Property rights to buildings, installations, and equipment, and also other property rights, excepting the rights of ownership of land and other natural resources, which the participants have transferred by way of their contribution to the capital of the juridical person, may also serve as such security.

Property put up as collateral may be sold by the holder of the lien for Soviet and foreign currency at negotiated prices, including at auctions, to Soviet juridical persons, and in cases envisaged by legislative acts in effect in the RSFSR also to foreign juridical persons, foreign nationals, and their associations.

59. Protection and exercise of the rights of intellectual property of foreign investors and also of juridical persons with foreign participation are insured on the territory of the RSFSR in accordance with the provisions of national legislation, including copyright to literary, scientific and artistic works, including computer programs and databases, patents and other rights to inventions and

industrial designs, know-how, commercial secrets, trademarks and service marks, corporate names, and protection against unfair competition.

60. A juridical person with foreign participation concludes contracts with its employees with respect to items of intellectual property created in the course of solving particular problems in accordance with assignments given them, confirmed by the documentation of the juridical person.

A patent on inventions and industrial designs is issued to the juridical person if a contract to that effect has been concluded between the employee and the juridical person. That contract, including a waiver of the right to obtain the patent, specifies the duties of the juridical person in providing the employee conditions of a material, production, and social nature.

If such a contract has not been concluded between the employee and juridical person with foreign participation, then the patent is issued to the originator of the invention or industrial design. The juridical person is entitled to use that invention or industrial design under the conditions set forth in an agreement with the originator who is the patentholder.

A juridical person independently decides on patenting abroad inventions and industrial designs that belong to it.

61. Liquidation of a juridical person with foreign participation takes place in the cases and according to the procedure envisaged by legislative acts in effect in the RSFSR for the respective types of juridical persons.

62. The appropriate authorities send information on liquidation of a juridical person with foreign participation to the RSFSR Ministry of Finance for the juridical person with foreign participation to be removed from the special register.

Announcements of liquidation are published in the press.

63. Disputes of juridical persons which have foreign participation with state agencies and public organizations of the RSFSR and also with organizations which are juridical persons of the RSFSR, and disputes among participants of such juridical persons on matters related to their activity, are subject to examination in accordance with legislation in effect in the RSFSR in the courts of the RSFSR, bodies of state arbitration, or, by agreement between the parties, in an arbitration court.

The relevant legislation in effect in the RSFSR applies to disputes between participants of a juridical person on matters related to its activity.

64. Should the RSFSR conclude international agreements which contain provisions contradictory to this law, the provisions of the relevant international agreement are effective.

Section IV. Foreign Investments in Financial Assets and Property

65. Foreign investors have the right to open accounts in rubles and in foreign currency in banks on the territory of the RSFSR, to acquire stock, bonds, and other securities, and to conclude contracts for personal and property insurance.

66. Imports and exports of Soviet and foreign currency, payment documents, securities, the opening and conditions of accounts in banks are regulated by the RSFSR Law on Currency Control and Regulation in the RSFSR.

67. Foreign investors have the right to acquire as their property buildings, equipment, other movables, and real estate in accordance with legislation of the RSFSR.

Section V. Acquisition of Rights To Use Land and Other Property Rights by Foreign Investors and Juridical Persons With Foreign Participation

68. The granting of rights to use land (including the leasing of land) and natural resources on the territory of the RSFSR to foreign investors and juridical persons with foreign participation is regulated by the appropriate legislation.

The right to use the resources of the economic zone of the RSFSR on the continental shelf is granted on the basis of decisions of the RSFSR Supreme Soviet and in accordance with the procedure it defines.

69. Lessors may lease property to foreign investors and juridical persons with foreign participation on the basis of contracts in accordance with legislation in effect in the RSFSR.

The leasing of property that belongs to the republic as a whole, if the value exceeds 1 billion rubles, is subject to permission of the agency of the state that has the power to manage that property.

Section VI. Foreign Investments in Free Enterprise Zones

70. The procedure for creating free enterprise zones in the RSFSR, the foreign investments to be made in them, and the benefits to be granted are established for each zone in accordance with legislation in effect in the republic.

Section VII. Final Provisions

71. This law takes effect on 1 October 1990.

72. The provisions of this law:

a) extend to juridical persons with foreign participation already operating in the RSFSR with the exception of the rules concerning registration and licensing of the activity of those juridical persons;

b) also extend to juridical persons whose application for registration is also already under consideration. In this

case, the period for examination of the application set forth in this law begins to run as of 1 October 1990.

73. Documents on registration and licenses issued before this law takes effect remain valid.

74. All benefits accorded to juridical persons with foreign participation on the territory of the RSFSR before this law takes effect continue to be valid. In a case when these benefits are less favorable than those accorded by the present law, the new benefits are effective.

Annex: Lines of Business Engaged In on the Territory of the RSFSR by Juridical Persons With Foreign Participation Which Qualify Them for Tax Benefits**1. Electronics:**

- a) production of components;
- b) production of computers and peripherals;
- c) production of electronic telecommunications stations and substations;
- d) production of automatic processing equipment and rendering of services in its application;
- e) production of computer-aided design and editing systems;
- f) production of electronic equipment and the rendering of related services by the manufacturer, including the production of electronic consumer goods

2. Production of replacement parts and components for motor vehicles.

3. Production of machine tools.

4. Manufacturing of machines and equipment for agriculture and the timber and lumber industry, production of foodstuffs.

5. In the area of the production of parts, machines, and machinery:

- a) manufacturing of high-precision cast, forged, and stamped parts;
- b) production of multipurpose replacement parts and components, high-quality attachments and devices, valves, hydraulic and pneumatic elements, up-to-date antifriction bearings and parts, large-size synthetic parts with increased productivity, and manufacturing materials;

c) production of tools and jigs and fixtures;

d) manufacturing of industrial ceramics.

6. In the area of packaging technology:

- a) production of packaging materials and containers;
- b) production of packaging equipment.

7. In the area of the production of pharmaceutical products, chemicals for plant pest and disease control, and intermediate products:

- a) manufacturing of new pharmaceutical materials;
- b) production of new types of chemicals for plant pest and disease control;
- c) production of key intermediate products used in pharmacy and production of chemicals for plant pest and disease control;
- d) manufacturing of products used in veterinary practice.

8. Manufacturing of products which augment exports and reduce imports of products of the agricultural and food industries for convertible currency.

9. Development of domestic production of protein.

10. Production of materials used in raising plants and animals.

11. In the area of development of energy- and materials-saving [original reads "-intensive"] technologies:

a) manufacturing of products based on technologies producing materials making it possible to erect more up-to-date structures with the lowest possible weight (such as high-strength structural materials, high-purity base materials, materials that improve processes);

b) production of elements used to constantly check that dimensions and quality parameters conform to the technological instructions;

c) production of equipment for utilization of by-products and wastes in those sectors where they are being produced in large amounts (such as the timber and lumber industry, cropping, and animal husbandry).

12. Communications.

13. Tourism:

a) construction and operation of facilities for the development of health resort tourism (builder-operated);

b) restoration of historical monuments;

c) hotel construction and operation.

14. Manufacturing of products using biotechnical and biotechnological processes.

15. Medical equipment.

Basic Provisions of the Program for Development of Trade Through Commodity Exchanges in the USSR

The purpose of the program is to create in the USSR a network of commodity exchanges specializing above all in transactions involving existing (real) commodities. At the same time, during the time the program is being

carried out, all the necessary prerequisites must be brought about for the subsequent transition to a futures commodity exchange.

The following basic conditions are required for the normal operation of a commodity exchange as a standard institution of a market economy:

- unrestricted pricing as a general principle of relations between entities doing business;
- independence of manufacturing enterprises in choice of the production program and in disposition of their own products, and accordingly—unrestricted sale of the bulk of commodity resources;
- competition among sellers and among buyers of products quoted on the exchange, and accordingly—the existence of a sufficient number of producers and middlemen (at least several dozen as a rule);
- the recognized social and legal status of the exchange, set down in legislation on the exchange and other legislative enactments providing legal guarantees for exchange transactions;
- existence of the material and technical base (specialized rooms, equipment, and software) necessary for the activity of the exchange;
- existence of a sufficient number of highly qualified exchange specialists, brokers, members of quotation and arbitration commissions, and so on);
- at the present time, practically none of these conditions exist in our economic life. It is the purpose of this program to achieve them.

1. Main Lines of the Program

In their content and methods of achieving the goals which are set, the measures contained in the program for development of exchange trading in the USSR may be divided into four interrelated segments.

1.1. General Economic Measures

These affect a broad range of economic relations extending beyond exchange activity proper. Their purpose is to provide the general economic conditions for development of the entire set of interrelated institutions of a market economy. They include the following:

1.1.1. Transition to unrestricted pricing of products for production and technical purposes.

1.1.2. Substantial reduction of the share of the state order and transition from centralized distribution of production resources to wholesale trade in machines and equipment.

1.1.3. Measures to demonopolize the economy and develop competition.

1.1.4. Financial recovery of the economy.

1.2. Legal Measures

These are aimed at defining the legal status of the exchanges and the sphere of government regulation of exchange activity.

1.2.1. Drafting and adoption of the Law on the Commodity Exchange and Exchange Trading, which must contain the following:

- the general foundations for the organization, management, and operation of the commodity exchange in the USSR;
- characteristics of the legal status of the exchange and its relations with government administrative agencies and local soviets;
- definition of the sphere and outlines of state regulation of exchange activity.

1.2.2. Creation of the Committee for Trading on Organized Commodity Markets, whose jurisdiction would extend over the following:

- current regulation of exchange activity;
- preparation and adoption of the General Rules of Exchange Trading;
- the drafting of a standard package of documents for establishment and operation of commodity exchanges;
- identification of the group of commodities which may not be quoted on the exchange, which it would do jointly with the Antitrust Committee and other state agencies;
- presentation of proposals for amendment of exchange legislation;
- the granting of permission for new types of exchange transactions;
- investigating and combating abuses on exchanges.

1.3. Organizational Measures

These are aimed at providing the material, organizational, and other conditions for the development and normal functioning of the network of commodity exchanges, and they also include the actual work of setting up commodity exchanges.

1.3.1. Organization of a system for training personnel for exchange trading.

1.3.2. Furnishing the material and technical base for development of exchange trading.

1.3.3. Creation of a specialized scientific research center for the problems of studying the market.

1.3.4. The practical work of setting up commodity exchanges, which is to be done by the Committee for Trade and Organized Commodity Markets and by other interested organizations.

1.3.5. Creation of the information infrastructure of wholesale trade.

1.4. Social Measures

These are aimed at overcoming antimarket attitudes in the social consciousness and at forming a positive public attitude toward exchange activity.

1.4.1. A purposive campaign in the news media to explain the purposes and principles of exchange trading.

1.4.2. Support for professional participants in exchange trading.

2. Schedule for Carrying Out the Program

The beginning of 1993 should be looked upon as the final date for carrying out the program for development of exchange trading. All the measures enumerated in Section 1 should by and large be performed by that time.

As for the dates of accomplishing the specific measures, the program is divided into two large stages—the transitional stage and the main stage. The time frames of each of these stages can be characterized as follows:

- Stage I—up to mid-1991;
- Stage II—up to the end of 1991.

Stage I. The purpose of this stage is to create the basic external conditions for beginning the practical effort to organize commodity exchanges. The principal measures in this stage include the following:

- drafting and adoption of the Law on the Commodity Exchange and Exchange Trading;
- formation and staffing of the Committee for Trade on Organized Commodity Markets;
- drafting of the General Rules of Commodity Trading in accordance with current economic law;
- drafting of a package of standing articles of association of a commodity exchange;
- development of a general system for government regulation of exchange activity;
- analysis of the results of operation of the first exchanges and improvement on that basis of the rules of exchange trading, the mechanism for exchange quotation of prices, and the procedure for settlement of disputes in exchange arbitration;
- adoption by the Committee for Trade on Organized Commodity Markets of the list of commodities not subject to sale on the exchange;
- creation of government reserves intended for commodity interventions in order to stabilize the exchange market in critical situations;
- opening of cost-accounting (khozraschetnyy) teaching and consulting centers;
- organization of large-scale training of personnel for the commodity exchange;
- organization of the publication of the exchange newspaper.

Stage II. The purpose of this stage is to complete the transition to the system of exchange trading based on

transactions involving existing commodities, and creation of conditions for future transformation of Soviet commodity exchanges to exchanges of the futures type:

- improvement of legislation related to the transition to an advanced system of exchange trading;
- creation of an effective system of indicative regulation of exchange trading;
- gathering and summarization of information on exchange market conditions on behalf of government regulation of the market;
- as the market is filled out and competition develops, the list of commodities not to be sold on the market would be reduced;
- development of interexchange operations and foreign economic relations of domestic commodity exchanges.

Draft Law of the RSFSR on the Commodity Exchange and Exchange Trading

The commodity exchange is created for the following purposes:

- a) to provide brokering services in the conclusion of trade transactions;
- b) to put order in commodity trade, to regulate commodity operations, and to settle trade disputes;
- c) to gather and publish information on prices, the condition of industry, trade, transportation, and other factors that have an effect on the dynamic behavior of prices.

Section I. General Provisions

1. The commodity exchange (hereinafter—the Exchange) is an organization operating on the basis of the principles of economic independence.

The Exchange possesses the rights of a juridical person and separate property, and it may have its own current account, foreign exchange account, and other accounts, and a stamp bearing its name.

2. The Exchange operates on the basis of the present law, other laws of the RSFSR, and its own charter and the rules of exchange trading drafted pursuant to those laws.

3. The Exchange is created on the basis of voluntary association of interested Soviet and foreign juridical and physical persons (hereinafter—interested persons), who have not been prohibited from doing so by current legislation.

4. The Exchange is created on the principles of a company based on shares, and as a rule its purpose is not to realize profit.

5. The subject matter for conclusion of transactions on the Exchange is the real commodity and contracts (agreements) for delivery of the commodity in the future, to be realized at unrestricted prices.

6. The Exchange structures its activity as a closed organization. Exchange operations on the Exchange may be conducted only by members of the Exchange personally or through their authorized representatives and by exchange brokers by order of Exchange members. All other interested persons conduct operations on the Exchange only through members of the Exchange as intermediaries.

Section II. Rights of the Exchange

7. In order to perform the tasks assigned it, the Exchange has the following rights:

a) to issue on the basis of the present law its own procedure and the rules governing activity of the Exchange, to create subdivisions of the Exchange, and to establish the duties of staff members of the Exchange, including a definition of their powers and functions;

b) to organize and conduct exchange meetings, with the functions defined in the rules of exchange trading;

c) to draft pursuant to state standards its own exchange standards and standard exchange contracts;

d) to conduct exchange operations, to formalize exchange transactions, and render decisions in exchange disputes;

e) to suspend exchange trading for a time if the prices of exchange transactions during the day move upward by more than the amount determined by the Exchange or the Committee for Trade on Organized Commodity Markets;

f) to fix the entrance fees and membership dues for members of the Exchange as well as other necessary money fees, to collect the charge for services rendered by the Exchange;

g) to impose fines for violation of the Exchange Charter and the rules of exchange trading;

h) to submit proposals to all state and government organizations on matters concerning the activity of the Exchange;

i) to have its representative on other exchanges operating on the territory of the USSR and abroad;

j) to independently issue the exchange bulletin, manuals, and other publications for information and advertising purposes.

Section III. Establishment of the Exchange

8. The Exchange is created by decision of the meeting of founders. Any interested persons not forbidden to do so by legislation in effect may be founders of the Exchange.

9. The Exchange is established as a voluntary association of interested persons, hereinafter referred to as the founders. The association is based on the payment of a share and participation in the activity of the Exchange.

The amount and character of the share is determined by the meeting of founders. In case of withdrawal of a founder, the share paid in is returned on the basis of its value at the moment of withdrawal.

10. Delineation of the powers and rights of the founders and members of the Exchange is determined by its charter.

11. Dividends may be paid according to the share paid in. The procedure and amount of payments are determined by the general meeting of Exchange members.

12. The Exchange is established by the signing of the articles of association, which define the procedure and principles of the Exchange's creation, the list of founders, and the amounts and date of payment of the shares.

13. The founders prepare and conduct the first meeting of interested persons who have declared a desire to become members of the Exchange.

14. The first meeting of members of the Exchange jointly with the founders delineates the powers of the founders and members of the Exchange, approves the Charter of the Exchange, elects the executive officers of the Exchange, and determines the number of members and membership procedure on the Exchange.

15. The Exchange is considered created as of the moment of signing of the articles of association and when its charter is registered with local bodies of government.

Section IV. Members of the Exchange

16. Soviet and foreign juridical and physical persons not prohibited by legislation and meeting the requirements of members of the Exchange stipulated in its charter may be members of the Exchange. The procedure and rules for enrolling members of the Exchange and withdrawal from membership in the Exchange are defined in its charter.

17. Upon enrollment, the member of the Exchange pays the entrance fee. This fee expresses the value of the "seat" on the Exchange. This "seat" is the property of the member of the Exchange and accords all the rights and duties of the member of the Exchange defined in the present law and the Exchange's Charter.

18. The member of the Exchange may sell his "seat" if he should cease to be a member of the Exchange. The "seat" may be sold only to the Exchange Committee. The value of the "seat" is determined by the Exchange Committee on the basis of the relation between supply and demand for it.

19. The total number of Exchange members is determined by its charter.

20. The member of the Exchange pays annual membership dues, whose amount is determined by the Exchange

Committee (Board of Directors). The annual membership dues paid in are the property of the Exchange and are not returned to the member of the Exchange if he should cease to be a member of the Exchange.

21. Members of the Exchange bear financial liability for the results of the activity of the Exchange to the extent of the resources they have paid in.

22. The extent of the Exchange's liability for obligations of Exchange members is fixed by its charter.

Section V. Rights and Duties of Exchange Members

23. Every member of the Exchange has the following rights:

a) to conduct exchange operations on the days and during the hours of exchange meetings;

b) to take part in deciding questions of the Exchange's activity, to be elected to its governing bodies;

c) to conduct brokerage operations on the Exchange and to receive commissions on that basis;

d) to have its own representatives on the Exchange with the right to conduct exchange operations in the number established by the general meeting;

e) to take advantage of all the services of the Exchange.

24. Every member of the Exchange is subject to the following obligations:

a) to abide by the provisions of this law, the rules governing conduct of exchange operations, the traditions formed in the Exchange, and the decrees of the Exchange Committee (Board of Directors);

b) to make settlement related to his transactions in accordance with the rules of the Exchange and to promptly inform the Exchange Committee (Board of Directors) of changes in his financial situation which could have an adverse effect on the discharge of his obligations;

c) to pay the necessary entrance fees and annual membership dues;

d) to keep records on transactions he has completed in the form defined by the rules of the Exchange;

e) to furnish all necessary information to the monitoring bodies of the Exchange;

f) to attend the general meetings of Exchange members.

25. Should a member of the Exchange fail to perform the duties which are his responsibility, the Exchange Committee (Board of Directors) has the right to invoke penalties against him.

Section VI. Management of the Exchange and Its Structure

26. The general meeting of Exchange members is the supreme body of the Exchange. The executive body of the Exchange is the Exchange Committee (Board of Directors). The auditing commission is the monitoring body of the Exchange. They are elected by the general meeting of Exchange members. Their jurisdiction and powers are defined by the Exchange Charter.

27. If the annual amount of exchange operations performed in the Exchange exceeds an established figure, then a certain number of members of the Exchange Committee (Board of Directors) may be designated by the Committee to trade on organized commodity markets.

28. None of the decisions of the general meeting of Exchange members and the Exchange Committee (Board of Directors) on matters of its internal organization is subject to approval and none may be amended or revoked unless they are contrary to legislation.

29. Special subdivisions are created on the Exchange and in association with it to manage the Exchange and support its functions:

- Settlement Chamber. Created to handle settlements of transactions concluded on the Exchange and to monitor performance of contracts.
- Exchange Arbitration Commission. Created for prompt settlement of disputes that arise on the Exchange and for legal consultation on matters of exchange trading.
- Registration Committee. Created to observe exchange trading and to register and formalize transactions concluded on the Exchange.
- Quotation Committee. Created to gather information on the dynamic behavior of prices in transactions concluded on the Exchange, to make quotation is, and to prepare and publish the exchange bulletin.
- Committee for Standards and Quality. Created to draft and monitor exchange standards, for expert evaluation of the quality of goods quoted on the Exchange, and to settle questions of acceptance of commodities for trading on the Exchange.
- Committee for Rules of Exchange Trading. Created to draft and amend the rules of exchange trading and standard contracts and to monitor their observance.
- Group of Official Brokers Employed by the Exchange. Created to act as intermediary in conducting transactions on the Exchange among its members, to prepare the registration and formalization of those transactions (when the number of brokers who are members of the Exchange is insufficient).

Other subdivisions and auxiliary services necessary to the Exchange's activity may be formed on the Exchange.

30. The subdivisions of the Exchange operate on the basis of the Regulations adopted by the general meeting of members of the Exchange.

31. All or some of the following sections are organized and operate on the Exchange:

- section for trade in real commodities;
- section for trade in a future commodity or delivery contract;
- section for trade in standard contracts;
- section for barter transactions;
- section for sale at auction;
- section for trade in securities.*

Note: * Sections are created for trade in securities (stock divisions) in accordance with the procedure established for establishing stock exchanges.

32. The procedure for commencement of exchange operations in the various sections is determined by the Exchange Charter and its rules.

33. Various trade centers with separate support personnel are created on the Exchange for the conduct and registration of transactions involving various commodity groups and types of commodities.

Section VII. Property of the Exchange

34. The property of the Exchange is formed from the following:

- a) the shares, the entrance fees, and the annual membership dues;
- b) the security deposits posted with the Settlement Chamber;
- c) fees collected on performance of exchange transactions;
- d) fees for the rendering of services by the Exchange's subdivisions and for use of the Exchange's staff;
- e) fines for violation of the rules of exchange trading;
- f) other fees and money receipts.

35. The use and procedure for expenditure of resources is determined by the general meeting of Exchange members.

Section VIII. Exchange Transactions

36. Transactions are considered to be exchange transactions if they have been concluded concerning a commodity that may be traded on the given Exchange between members of the Exchange or their representatives during an exchange session within the times and in accordance with the procedure established by this law, the Exchange Charter, and its rules.

37. Only those transactions are permitted on the exchange which are conducted in observance of this law, the charter, and the rules of the Exchange.

38. Exchange transactions may only be conducted by persons permitted to do so under the Exchange Charter.

39. Exchange transactions are conducted during the exchange session on the basis of the rules of exchange trading and the Exchange Regulations drafted by the Exchange Committee (Board of Directors) and approved by the general meeting of Exchange members.

40. The content of an exchange transaction, with the exception of the designation of the commodity, the amount, the price, and the place and state of the transaction are not to be made public. This information can be conveyed only by request of the Committee for Trade on Organized Commodity Markets, investigatory agencies, or court order.

41. A transaction is considered concluded at the moment it is duly registered in the Exchange.

42. All disputes arising concerning exchange transactions are turned over for resolution to the Exchange Arbitration Commission, which operates on the basis of Section XII of this law and the Regulation on the Exchange Arbitration Commission and Procedure for Resolving Exchange Disputes.

That regulation does not preclude the right of the parties to turn if necessary to the USSR State Arbitration Commission or a court after having exhausted the possibilities of the Exchange Arbitration Commission.

Section IX. Types of Exchange Transactions

43. Transactions involving a real commodity and transactions for a future date (futures transactions) may be concluded on the Exchange.

44. Transactions involving a real commodity:

a) transactions involving a real commodity are concluded for the purpose of purchase and sale of the particular commodity;

b) transactions with a real commodity may be concluded as follows:

- on the basis of prior examination of the commodity:—according to external appearance;—according to the data of expert exchange evaluation;
- without prior examination of the commodity:—on the basis of samples;—on the basis of standards;—on the basis of a stipulated average or minimum quality of the commodity.

The conditions for the offering of a particular commodity are determined when it is accepted for trading on the Exchange on the basis of Section XIV of this law and the Exchange Charter;

c) transactions involving a real commodity may be conducted as follows:

- for a commodity which during the market is on the premises of the Exchange, in its adjoining buildings (warehouses), or is expected to arrive at the Exchange

on the day of the market before the end of the trading session, if the seller has declared this before the market opened and it is confirmed by the appropriate document;

- for a commodity which at the moment when the transaction is concluded is en route, which is confirmed by the existence of appropriate documents;
- for a commodity that has been shipped or is ready for shipment;
- for a future commodity or delivery contract;

d) transactions involving a real commodity, depending on the client's wishes, may be concluded for execution as follows:

- at a price fixed at the moment the transaction is concluded;
- at a reference price fixed at the moment the exchange opens or closes;
- at a reference quoted price which will be published on the Exchange for a particular trading day (period). The Exchange and the date are stipulated in advance in the contract or chosen within the limits of the liquidation period at the desire of the purchaser or seller depending on the terms and conditions of the contract.

The exchange day (period) is the segment of time for which the quotation is made and the exchange bulletin is published.

If there is no reference price on the stipulated day, calculation is made from the price published on the last day preceding the liquidation date on which a quotation was made. If no quotation for the given commodity has been made on the exchange indicated in the contract for more than 3 exchange days (periods) before the liquidation date, the calculation is made by agreement of the parties, and if that agreement is not achieved—at the price established by the Exchange Arbitration Commission jointly with the Quotation Commission;

e) in connection with commodities and grades of commodities traded on the Exchange and quoted on the given Exchange, transactions are concluded concerning them stipulating settlement at the reference price on the basis of the reference prices of the principal commodities and discounts and premiums applying to them to adjust for deviations from the average quality of the basic commodity quoted on the Exchange.

The discounts and premiums for commodities traded in volume are fixed and approved by the Committee for Quality and Exchange Standards depending on the comparative quality characteristics of the commodities on the basis of state standards or the standards of the Exchange. For commodities rarely traded on the Exchange, the discounts and premiums are fixed by agreement among the parties;

f) prices in transactions involving a real commodity are set for the net weight of the commodity (net) or for the weight of the commodity in a container (gross);

g) depending on the distribution of shipping costs, transactions with a real commodity are made at the price "free" at the city of the Exchange or other place where the commodity is to be delivered and accepted.

Setting the price with the stipulation "free" means that transport of the commodity purchased to that place must be done at the expense of the seller. The conditions for delivery of the commodity are determined in the standard exchange contracts. The terms "cif" and "fob" are used in that context;

h) when a transaction concerns a future commodity with settlement at the time of delivery, either of the parties has the right, unless otherwise stipulated in the contract, from the moment the deal is concluded and until a time set by the Exchange before execution time occurs, to sell his right to delivery or acceptance of the commodity (his contract) on the Exchange at the price that occurs on that day.

The transaction of selling the contract of one of the parties must be registered in the Exchange and formalized as a note of transfer;

i) the costs of storing the commodity in space adjoining the Exchange are at the seller's expense until it is sold, and after the commodity sale, unless otherwise provided in the terms of the contract, at the purchaser's expense;

j) to guarantee the reliability of settlement concerning transactions involving a real commodity, when the transaction is registered, both sides post a security deposit with the Settlement Chamber in the amount established by the Exchange in a percentage of the value of the transaction;

k) if the Exchange has the appropriate space, instead of the security deposit, the seller may place the commodity intended for delivery under the contract;

l) should there be a change in market conditions and in the case of unreliable clients, the amount of the security deposit may be increased by decision of the Exchange Committee (Board of Directors);

m) the money security deposit of the seller is returned to him when the transaction is executed (delivery of the commodity or delivery of the distribution documents for the commodity)

The purchaser's security deposit is deducted when the final settlement is made for the transaction with the seller. In the case when no transaction was made, the security deposit is returned to the purchaser.

At the same time, the security deposit may be used for the following purposes in accordance with a decision of the Exchange Arbitration Commission:

- to cover losses incurred because of the failure of one of the parties to execute the contract;
- to cover of the difference in prices in connection with execution of the contract;

- payment of forfeits;
- payment of penalties;

n) if one of the parties has failed to post security on time, the Exchange Arbitration Commission has the right to take steps to execute the transaction.

45. Futures transactions:

a) futures transactions are not as a rule concluded for the purpose of the sale or purchase of the commodity, but for insuring (hedging) transactions with a real commodity or to realize by resale or after execution of the transaction the difference from a possible change of prices;

b) futures transactions may be conducted by members of the Exchange for a group of commodities specified in the rules of the Exchange. The procedure for acceptance of commodities for trading on the futures market is determined by the rules of the Exchange. Persons who are not members of the Exchange may conduct futures transactions only through members of the Exchange;

c) futures transactions are concluded on standard terms and conditions worked out by the Exchange; deviation from them is permitted only within stipulated limits. The standard terms and conditions are established by the Exchange for each type (grade) of the commodity which has been accepted for trading on the futures market;

d) the subject matter of a futures transaction is a standard contract—a strictly defined quantity of the commodity of the established average grade with minimum permissible deviations, to be delivered under specified conditions as to the payment of shipping costs (as a rule the terms would be "free" in the city or warehouse of the Exchange). Futures transactions may be concluded only for a quantity of the commodity that is a multiple of the established transaction unit, i.e., for a certain number of standard contracts;

e) futures transactions may be executed at prices in accordance with Article 44, Paragraph 2, of this section of the law;

f) in a case of delivery of a commodity whose quality does not meet the principal commodity in the standard contract, the seller grants or obtains a deduction or premium, respectively, to the settlement price of the contract. The deductions and premiums are established by the Exchange for all commodities accepted for trading on the futures market;

g) the delivery date in a futures transaction is set by agreement of the parties on the basis of the standard periods of time fixed by the Exchange for each standard contract.

The delivery date is established as a certain period of time in the future (a certain month, a certain 10-day period within the month, etc.). For a time fixed by the Exchange in advance of the delivery date, futures transactions for that period are suspended;

h) in the conduct of operations on the futures market, the rules of the Exchange establish the amount, time, and procedure for posting with the Settlement Chamber the original margin, and in case of an adverse price movement, the security deposit.

46. The rules of the Exchange define the organization of trading and the procedure for concluding transactions in the section for barter transactions.

47. The procedure for selling commodities (contracts) at auction is defined in the relevant regulation.

Section X. Procedure for the Conduct of Exchange Trading

48. Only Exchange members and their authorized representatives, and also official brokers of the Exchange, have the right to act as exchange intermediaries and to conduct brokerage operations on the Exchange. For violation of this rule, all other persons are subject to penalties under the rules of the Exchange.

49. The amount of the commission for brokering operations is determined by the rules of the Exchange.

50. Exchange trading is organized on the basis of the Exchange Regulations in the form of a public and open market on the principle: whoever first responds affirmatively to an offer is considered a party to the transaction.

51. The offers and responses made are entered by the official recorder and made known to the entire exchange floor over the quotation board.

52. The deal is considered made at the moment it is recorded by the exchange recorder on the basis of verbal declaration of the parties by entering the principal elements of the deal in the registration book (on the card). The final formalization of the bargain takes place in accordance with the rules of the Exchange.

53. Should one of the parties refuse to finalize the contract, then his actions are seen as a violation of the contract and appropriate penalties may be applied under the rules of the Exchange by decision of a representative of the Exchange Committee (Board of Directors).

54. A trade marked down in the registration book (card) has juridical force and may be canceled only in accordance with established procedure.

55. The following are prohibited on the Exchange:

- engrossed deals, purchases and sales of commodities (contracts) by one person directly or through substitutes whose purpose is to influence the movement of prices;
- any coordinated actions of participants in exchange trading whose purpose is or which could result in changing or fixing current exchange prices;
- the spreading of false rumors which could result in an artificial change in conditions on the market.

The Committee for the Rules of Exchange Trading concerns itself with investigating and enumerating such actions.

XI. Procedure for Execution of Bargains

56. The procedure for executing and settling various types of trades and the consequences of complete or partial nonperformance of contracts are defined in the rules of the Exchange.

57. Settlement for transactions involving a real commodity may be made in the generally accepted way. Settlement for futures transactions is made exclusively through the Exchange's Settlement Chamber.

58 [original reads "59"]. The Settlement Chamber monitors the execution and performance of contracts.

Section XII. Procedure for Settlement of Disputes

59. Disputes on matters which are technical in nature and envisaged by the rules of the Exchange are resolved through the Exchange Arbitration Commission, which forms for this purpose an arbitration collegium (arbitration tribunal).

60. The procedure for referring a case to the Exchange Arbitration Commission and the sequence in which exchange disputes are resolved are defined in the rules of the Exchange and the Regulation on the Exchange Arbitration Commission and Procedure for Settlement of Exchange Disputes.

61. The decisions of the Exchange Arbitration Commission are binding on members of the Exchange.

62. Members of the Exchange may not evade examination of the dispute in the Exchange Arbitration Commission.

Section XIII. Penalties for Violating the Rules of Exchange Trading

63. A representative of the Exchange Committee (Board of Directors) has the right to impose the following penalties on participants in the exchange session for violation of the rules of exchange trading:

- to impose a fine in the amount established by the Exchange;
- to remove the offender from the exchange session;
- to deprive the offender of the right to conduct exchange operations on the given Exchange temporarily or permanently;
- to deprive the offender of the right to sell a given product in a given exchange session;
- to withhold refund of the security deposit posted;
- to sequester a commodity stored in the premises adjoining the Exchange.

Section XIV. Procedure for Acceptance of Commodities for Trading on the Exchange

64. Only registered types (grades) of commodities are sold on the Exchange. The procedure for accepting a commodity for trading in the various sections of the Exchange is defined by the rules of the Exchange.

Section XV. Procedure Governing Relations With the State and Other Organizations

65. The Exchange's relations with other organizations are structured on the basis of contracts.

66. The activity of the Exchange is regulated and supervised by the Committee for Trade on Organized Commodity Markets within the limits of its jurisdiction defined in the Regulation on the Committee for Trade on Organized Commodity Markets.

67. The activity of the Exchange may be suspended by decision of the Committee for Trade on Organized Commodity Markets or financial authorities if there is evidence that it has violated legislation.

68. The Exchange is taxed in accordance with the general norms of tax legislation of the RSFSR for enterprises.

69. When transactions concluded on the Exchange are recorded, every participant in exchange trading pays to the state a stamp tax on all exchange operations conducted. The amount of the stamp tax is set by the Committee for Trade on Organized Commodity Markets.

The amounts of stamp tax collected are paid by the Exchange into the republic and local budget on a 50/50 basis.

Section XVI. Termination of the Activity of the Exchange

70. An Exchange may terminate its activity by decision of the general meeting of exchange members.

71. An Exchange may be liquidated on the basis of a court decision in cases when it has violated the provisions of this law and legislation in effect or in cases of prolonged insolvency.

Draft Regulation on the Committee for Regulation of Organized Commodity Markets

Section I. General Provisions

1. The Committee for Regulation of Organized Commodity Markets (hereinafter—the Committee) is a state institution whose tasks are to oversee the activity of commodity exchanges, permanent fairs, and auctions, to protect the interests of participants in wholesale trade, and to interdict abuses on organized commodity markets.

2. The Committee is accountable to the Council of Ministers, which defines its powers. Before 1 March of

every year, the Committee submits to the Council of Ministers a report on the state and trends in development of organized commodity markets and on its own activity.

3. The chairman of the Committee and his deputy are appointed by the Council of Ministers to a 4-year term which is unaffected by the dates for formation of a new government.

Section II. The Committee's Functions and Powers

4. The Committee's basic functions are as follows:

- to monitor the creation and activity of commodity exchanges and other forms of organized wholesale trade from the standpoint of their adherence to laws and regulations that have been adopted;
- to adopt measures to develop and regulate exchange trading and other forms of organized wholesale trade;
- to monitor the observance of antitrust legislation in the trade sector and to take steps to demonopolize trade and develop competition on the commodity market;
- to issue permits for quotation of new commodities on commodity exchanges and for the conduct of new types of exchange operations;
- to interdict abuses, swindling, and improper business practice on organized markets;
- to prepare proposals for development of exchange legislation and the procedure and rules of exchange trading;
- to regulate brokerage activity on organized commodity markets;
- to submit to the Supreme Soviet and Council of Ministers conclusions concerning draft laws and other normative acts that affect or could affect development of market trading;
- to conduct a comprehensive analysis of the state of the market infrastructure and with the help of state and government institutions and other interested organizations to draft proposals for development of the wholesale market;
- to publish statistical and analytical material on matters related to the operation of organized commodity markets.

5. In order to perform the functions which are its responsibility, the Committee has the following rights:

- to issue enforceable regulations, prescriptions, and instructions on matters that lie in its competency;
- to impose penalties on physical and juridical persons for violation of the rules of exchange trading and the rules of trading on other organized wholesale markets;
- to bring before the State Arbitration Commission and the courts cases of violation of legislation in the trade sector;
- to appoint its representatives (permanent observers) to the executive bodies of commodity exchanges whose annual exchange turnover exceeds the volume fixed by the Committee;
- to conduct an inquiry of specific cases of abuses on organized commodity markets;

- to submit proposals to state and government organizations on problems in development of trade;
- to stay the decisions of government bodies affecting the interests of organized commodity markets;
- to suspend entirely or partially the activity of commodity exchanges and to raise the issue of closing down a commodity exchange;
- to present proposals to the general meeting of exchange members and to the Exchange Committee (Board of Directors);
- to suspend the conduct of exchange operations if deviations of the prices of current exchange trades in the course of the day exceed the limit established by the Committee;
- to take steps independently or jointly with interested organizations and persons to create commodity exchanges and other forms of the organized commodity market;
- to suspend membership of physical and juridical persons on exchanges until completion of the investigation of cases of abuses;
- to suspend the activity of an organized commodity market until violations detected have been corrected;
- to close down organized commodity markets if they repeatedly violate laws, regulations, and prescriptions of the Committee.

6. The Committee does not intervene in matters concerning the internal organization and activity of the various commodity exchanges.

Section III. Interaction With Other Organizations

7. All state and government institutions, enterprises, organizations, and officials are required to meet the Committee's request for the following:
- to place at its disposition documents, reference materials, and other information pertaining to commercial activity on organized commodity markets and necessary for performance of the functions which are its responsibility;
 - to furnish written explanations on matters concerning violation of legislation in the trade sector.
8. All state and government institutions are required to send to the Committee draft versions of their decision that affect or could affect the development of organized commodity markets.
9. Jointly with the State Agency for Oversight of Operations With Securities, the Committee decides the question of creating stock sections within commodity markets.
10. The Committee interacts with all state regulatory agencies and oversight agencies on matters in their jurisdiction.

Section IV. The Structure of the Committee

11. The Committee consists of central headquarters and authorized representatives if needed at the major organized commodity markets.
12. The central headquarters includes the department for oversight of markets, the economic analysis department, and the information department.

Section V. Financing the Committee

13. The Committee is financed out of resources of the state budget, levies collected from commodity exchanges and other organized markets, and fines.
14. The Committee has a right to collect a charge for use of the data bank built up by the Committee.
15. The Committee issues publications on the subject matter of its activity which may be purchased.

Section VI. Abolishing the Committee

16. The Committee is abolished by decision of the Council of Ministers.

Draft Law of the RSFSR on Restriction of Monopolistic Activity and the Development of Competition

Section I. General Provisions

Article 1. Purposes of the Law

This law defines the organizational and legal foundations for development of competition, measures to prevent, restrict, and interdict monopolistic activity and unfair competition, and it also promotes the creation of commodity markets.

Article 2. Sphere of the Law's Application

The law is effective over the entire territory of the RSFSR and extends to relations arising on republic and regional markets involving any economic entities, government agencies and administrative agencies, and individual officials.

Relations related to development of competition on commodity markets in the RSFSR and to restriction of monopolistic activity are regulated by the present law in observance of USSR antitrust legislation, interrepublic economic agreements, and the relevant enactments of international organizations of which the RSFSR is a member.

The law does not apply if it violates the rights of economic entities arising out of legislation on inventions, trademarks, and copyright and also from international agreements to which the RSFSR is a party.

The RSFSR Supreme Soviet, if the public interest so requires, establishes exception to the effect of this law and the limits of its application with respect to certain

categories of economic entities or specific spheres of activity and specific markets.

For the purpose of regulating commodity markets, in the period between sessions of the RSFSR Supreme Soviet the RSFSR Council of Ministers has the right to establish exceptions to the effect of this law dictated by extraordinary circumstances (disasters in particular). The RSFSR Council of Ministers notifies the RSFSR Supreme Soviet of the steps taken and indicates the causes and duration of those exceptions.

Article 3. Impermissibility of Monopolistic Activity and Unfair Competition

The following are prohibited: monopolistic activity, whose purpose is or could result in frustration, limitation, or elimination of barring, restricting, or eliminating competition on the market, and which is also an abuse of a dominant position on the market or the economic dependence of contracting parties; unfair competition, which does injury to economic entities or the interests of the citizens.

Economic entities operating on the commodity market are required to exercise the rights granted them conscientiously, they are not to frustrate the normal functioning of the market, nor are they to engage in deception, abuse of confidence, or dishonest conduct of business.

The actions of economic entities, government bodies, and administrative agencies, or their officials aimed at discrimination against certain economic entities or restricting their independence or preventing their entry onto (withdrawal from) the commodity market are unlawful.

Article 4. Definitions

For the purposes of this law, terms are defined as follows:

- "economic entities" means private, collective, cooperative, joint-stock, state, public, or other enterprises, economic associations, concerns, and other associations carrying on economic activity of the production, sale, or acquisition of commodities, and also other organizations enjoying the rights of a juridical person or individuals engaged in self-employment;
- "government bodies and administrative agencies" means republic and regional government bodies and administrative agencies, agencies for administration of nonstate enterprises, associations, and organizations, and also intersector state associations, economic associations, concerns, and other associations in performance of their administrative functions (placement of state orders and distribution of physical resources under limit-allowances and the like);
- "commodity" means the product of an activity intended for sale, including jobs and services;
- "commodity market" means the sphere of distribution of commodities satisfying a single need, a group of interchangeable needs, the needs of a particular

group of consumers, or the need (totality of needs) within the limits of a particular region;

- "republic commodity market" means the sphere of distribution of commodities mainly within the limits of the RSFSR;
- "regional (local) commodity market" means the sphere of distribution of commodities mainly within the limits of an autonomous republic, kray, or oblast;
- "competition" means the rivalry of economic entities on the commodity market when none of them is able to have a decisive impact on the general sales conditions on the given market;
- "dominant position" means the position of an economic entity on a particular republic or regional commodity market which gives that entity the possibility of conducting monopolistic activity in cases when: either its share is between 35 and 70 percent or higher on the respective commodity market and entry on that market is difficult for other economic entities, or it has a decisive impact on those with whom it concludes contracts informing business ties;*
- "monopolistic activity" means actions (inaction) of economic entities or government bodies or administrative agencies contrary to this law and aimed at barring, restricting, or eliminating competition and doing injury to public interests, the interests of other economic entities, including agreements (collusion) among economic entities and also government bodies and administrative agencies.

Note: * The republic antitrust body annually sets the maximum shares of economic entities on the particular commodity market allowing pronouncement of the position of an economic entity to be dominant.

Article 5. The RSFSR State Committee for Antitrust Policy and Support of the New Economic Structures

The RSFSR State Committee for Antitrust Policy and Support of the New Economic Structures (hereinafter—the RSFSR Antitrust Committee) is formed by the RSFSR Supreme Soviet to promote the creation of commodity markets, to develop competition, to restrict monopolistic activity, and to interdict unfair competition.

The functions and powers of the RSFSR Antitrust Committee are defined in this law (Section V).

The RSFSR Antitrust Committee forms regional branches. The powers of the regional branches are established by this Committee within the limits of its competence.

Section II. Monopolistic Activity

Article 6. Economic Entities May Not Abuse a Dominant Position on the Market

Economic entities are prohibited from committing the following abuses of their dominant position on the

market so as to restrict competition and infringe the public interests of other economic entities or individuals:

- restriction or termination of the production of commodities without consent of the main consumers if there exists a real possibility of production;
- disruption of cooperative relations that exist without consent of the consumer and refusal to conclude a contract with the consumer, with the exception of cases when this essentially promotes the application of scientific-technical advances or otherwise increases production efficiency;
- withdrawal of goods from circulation in order to create or maintain a shortage on the market or to raise prices;
- impose on a party to a contract terms and conditions disadvantageous to him or conditions not pertaining to the subject matter of that contract (unjustified demands for transfer of financial resources, including foreign exchange; raw materials, supplies, articles, dwellings, apartments, or the manpower of the other contracting party, etc.);
- inclusion in a contract of adverse terms and conditions that place the other contracting party in an unequal position compared to other economic entities (discrimination against certain economic entities);
- consent to conclude a contract only on condition that goods be covered by it which the consumer does not need;
- unjustified raising of unrestricted prices and exceeding the upper limits of regulated prices;
- creation of obstacles impeding other economic entities from entering the market.

Article 7. Prohibition of Unlawful Agreements Among Economic Entities

Agreements (deals) of economic entities arrived at in whatever form and aimed at the following are prohibited and declared entirely or partially invalid:

- division of the market on a geographic basis, on the basis of the volume of sales or purchases, by assortment, or by group of consumers in order to restrict competition;
- exclusion or restriction of access to the market of other economic entities as sellers of particular goods or buyers;
- establishment (maintenance) of a price or premium (reduction) applied to a price in order to realize unjustifiably high profit or eliminate competitors;
- artificially raising, lowering, or maintaining prices in auctions and other trading centers.

The RSFSR Antitrust Committee may declare that these agreements do not run counter to this law if they substantially contribute to reduction of production and distribution costs; to the application of scientific-technical advances; to the higher effectiveness of sales of Soviet goods on external markets or to optimization of purchases abroad.

Article 8. Impermissibility of Monopolization Through the Transformation of Economic Entities Into Joint-stock Companies and Partnerships

In order to prevent monopolization through the transformation of economic entities into joint-stock companies and partnerships and in the process of operations with securities, the following are prohibited:

- acquisition (ownership) by an economic entity controlling more than 20 percent of a particular commodity market of the stock of another economic entity operating on that same commodity market;
- purchase by any juridical or physical person of the controlling block of stock of an economic entity occupying the dominant position on a particular commodity market.

Article 9. Impermissibility of Discrimination Against and Restriction of the Independence of Economic Entities by Acts of Bodies of Government and Administrative Agencies

Government bodies and administrative agencies are prohibited from defining discriminatory or on the other hand preferential conditions for the activity of particular economic entities if such conditions restrict competition, as follows:

- establishing bans on the sale of commodities from one region of the country (republic, kray, or oblast) to another or otherwise restricting the rights of economic entities to market and acquire commodities;
- preventing the creation of new economic entities in any sphere of activity, including small enterprises;
- establishing unjustified prohibitions against performance of particular types of activities of economic entities or production of particular commodities;
- issuing instructions to economic entities for prior delivery of commodities to a particular group of consumers or concerning priority conclusion of a contract.

Article 10. Impermissibility of Agreements of Government Bodies and Administrative Agencies Restricting Competition

Agreements (deals) among government bodies and administrative agencies preventing the normal operation of the market and the development of competition and infringing on the public interests and the interests of individuals are not permitted and are declared unlawful, as follows:

- on division of the market in order to restrict competition;
- on exclusion and restriction of access of economic entities to the market;
- on raising, lowering, and maintaining prices in order to realize unjustified revenues.

Section III. Unfair Competition

Article 11. Impermissibility of Unfair Competition

Unfair competition is not permitted, namely:

- dissemination of false or inaccurate information (presentation of accurate information in a false light) capable of causing damage to property and the business reputation of other economic entities;
- delude consumers concerning the character, method and place of manufacture, characteristics, suitability for use, or quality of goods;
- unauthorized use of trademark, corporate name, or labeling of a commodity, or unauthorized copying of the form, packaging, and external appearance of the commodities of other economic entities;
- advertising of commodities which do not meet quality requirements; distortion or suppression in advertising copy of information about the true characteristics and quality of commodities; improper comparison of commodities in advertising;
- unauthorized use or publication of confidential scientific-technical, production, or trade information.

Section IV. Tasks, Functions, and Powers of the RSFSR Antitrust Committee

Article 12. Tasks of the RSFSR Antitrust Committee

The tasks of the RSFSR Antitrust Committee include the following:

- promotion of measures aimed at forming market relations on the basis of development of competition and enterprise;
- drafting of measures to prevent, overcome, and limit monopolistic activity and to interdict unfair competition;
- state control over observance of antitrust legislation;
- state monitoring of the creation, liquidation, and reorganization (merger, absorption, division, withdrawal, transformation) of economic entities which occupy or could occupy a dominant position on the commodity market and also economic groupings, concerns, and other associations.

Article 13. Functions of the RSFSR Antitrust Committee

The RSFSR Antitrust Committee:

- systematically conducts a comprehensive analysis of the structures and state of markets and competition on them and drafts measures on that basis to improve the operation of the market, to develop competition, and also to overcome monopoly tendencies;
- submits to the RSFSR Supreme Soviet and RSFSR Council of Ministers reports and proposals on matters concerning improvement of antitrust legislation and the practice of its enforcement;
- submits to the RSFSR Supreme Soviet and RSFSR Council of Ministers conclusions of experts concerning draft laws and other normative acts pertaining to the functioning of the market and development of competition;
- coordinates scientific research in the field of the creation and operation of the market;

- issues recommendations to government bodies and administrative agencies concerning the performance of measures aimed at promoting the development of commodity markets and competition;
- drafts measures for demonopolization of production and distribution, including the creation of parallel structures and small enterprises, and also the division of highly monopolized economic entities;
- monitors major sales and purchases of stock capable of bringing about the dominant position of economic entities on commodity markets.

Article 14. The RSFSR Antitrust Committee's Right of Legislative Initiative

The RSFSR Antitrust Committee is granted the right of legislative initiative.

Article 15. Powers of the RSFSR Antitrust Committee

The RSFSR Antitrust Committee has the following rights:

- to issue to government bodies and administrative agencies and to economic entities enforceable prescriptions to correct violations of antitrust legislation and to cancel agreements that run counter to that legislation;
- to make decisions to confiscate from economic entities income unjustifiably realized as a result of monopolistic activity or unfair competition;
- to impose fines on economic entities and their officials and also on the officials of government bodies and administrative agencies for violation of this law and for failure to carry out the Committee's prescriptions;
- to pronounce entirely or partially invalid enactments issued by government bodies and administrative agencies and agreements they have concluded when they violate antitrust legislation;
- to declare contracts of economic entities partially or entirely invalid when they contradict antitrust legislation or to issue to them prescriptions for cancellation or amendment of contracts infringing upon public interests or the interests of other economic entities or individual citizens;
- to submit to the appropriate government bodies and administrative agencies proposals for institution of mandatory licensing, prohibition, or suspension of the export-import operations of economic entities should they violate antitrust legislation;
- to participate in the court or arbitration hearings in the examination of cases related to violation of antitrust legislation.

Article 16. Fund for Promotion of Antitrust Measures and To Support the New Economic Structures

The RSFSR Antitrust Committee creates the Fund for Promotion of Antitrust Measures and Support of New Economic Structures. The resources of the Fund are formed by means of 40 percent of amounts collected from economic entities as unjustifiably realized income

in connection with monopolistic activity and unfair competition, from resources of the republic budget, and also from other receipts.

The resources of the Fund are spent by the RSFSR Antitrust Committee to finance measures to develop competition and to restrict monopolistic activity.

Article 17. Right of the RSFSR Antitrust Committee to Unhindered Access to Information

Authorized officials of the RSFSR Antitrust Committee have the right of unhindered access to ministries, departments, and other government bodies and administrative agencies and also to enterprises, organizations, and their associations to perform functions which are the responsibility of the Committee and to examine all necessary documents.

The information obtained is not to be divulged.

Article 18. Duties of Economic Entities, Government Bodies, and Administrative Agencies With Respect to the RSFSR Antitrust Committee

Economic entities, government bodies, and administrative agencies are required to perform the following at the request of the RSFSR Antitrust Committee:

- to submit trustworthy documents, reference materials, and other information needed by the RSFSR Antitrust Committee to perform its functions;
- to submit written explanations concerning violations of antitrust legislation that have occurred.

The RSFSR Antitrust Committee guarantees preservation of state and commercial secrecy.

Article 19. The Right of the RSFSR Antitrust Committee To Impose Fines for Violation of the Duties Envisaged by Article 18 of This Law

The RSFSR Antitrust Committee is entitled to impose a fine as follows:

- on economic entities for failure to submit within the prescribed time documents, reference materials, and other information, and also written explanations of their officials or for knowingly submitting inaccurate or false information (Article 18 of this law), in an amount not to exceed 10,000 rubles;
- on officials of economic entities, government bodies, and administrative agencies for the violations enumerated in the preceding subparagraph, in an amount not to exceed 200 rubles.

Article 20. Council for Affairs of Monopolization and Competition

A public Council for Affairs of Monopolization and Competition operates in association with the RSFSR Antitrust Committee. The chairman of the RSFSR Antitrust Committee appoints the chairman of the Council. The Council is formed by its chairman from among

scientists and specialists in the areas of law and economics and from representatives of public organizations.

The functions of the Council are as follows:

- to conduct studies of the structure of commodity markets, of the extent of their monopolization, and to submit scientific papers on that basis to the RSFSR Antitrust Committee;
- to conduct independent expert evaluation of legislative bills, documents on the creation, liquidation, or reorganization of economic entities, and capital investment projects;
- to provide consultation to the RSFSR Antitrust Committee, government bodies and administrative agencies, and economic entities on matters concerning application of antitrust legislation;
- to study the foreign experience of antitrust regulation and support of competition on commodity markets.

The work done by the Council is paid for through cost-accounting (khozraschetnyy) centers of the RSFSR Antitrust Committee from the funds of the Fund for Promotion of Antitrust Measures and Support of New Economic Structures.

Article 21. Glasnost in Its Operation

The RSFSR Antitrust Committee guarantees glasnost in its operation, using for that purpose the news media and its own publication—the journal MONOPOLII I KONKURENTSIYA.

Section V. Promotion of the Development of Commodity Markets and Competition

Article 22. Recommendations of the RSFSR Antitrust Committee

In order to promote the development of commodity markets and competition, the RSFSR Antitrust Committee makes recommendations to the appropriate government bodies and administrative agencies:

- on the granting of preferential credits and also reduction of taxes or tax exemptions of economic entities entering for the first time commodity markets on which there has not been sufficient competition, or small enterprises;
- on expansion of the sphere of application of free and regulated prices;
- on the creation of parallel structures, including those financed with state capital investment;
- on the financing of measures to expand the output of scarce commodities to eliminate the dominant position of certain economic entities;
- on the attraction of foreign capital and creation of joint enterprises;
- on licensing export-import operations and changing customs tariffs;
- on reduction of the list of those lines of activity subject to licensing.

Article 23. Use of the Fund for Promotion of Antitrust Measures and Support of New Economic Structures

The resources of the Fund for Promotion of Antitrust Measures and Support of New Economic Structures are used by the RSFSR Antitrust Committee to extend aid to small enterprises and other new economic structures in the following ways:

- by granting them preferential credits;
- by performing the functions of guarantor of credits which small enterprises obtain from commercial banks;
- by insuring financial risks;
- by financing personnel training;
- by financing the drafting of articles of association in consulting firms.

Section VI. Prevention and Elimination of the Dominant Position of Economic Entities on Commodity Markets

Article 24. Procedure for State Monitoring of the Creation, Liquidation, and Reorganization of Economic Entities

The creation, liquidation, or reorganization of economic entities must not result in their dominant position on a commodity market or in restriction of competition.

Decisions, contracts, charters, and other documents concerning the creation, liquidation, or reorganization of economic associations, concerns, and other associations are sent along with documentation to the RSFSR Antitrust Committee or its regional branch, which within a 45-day period must send notification of consent or prohibition of the creation, liquidation, or reorganization. The grounds of refusal must be communicated in the notification of prohibition.

Failure to receive a response within 60 days from the moment documents were sent to the RSFSR Antitrust Committee is equivalent to prohibition. Creation, liquidation, or reorganization of economic associations, concerns, and other associations are possible only with consent of the RSFSR Antitrust Committee.

In those cases when the creation, liquidation, or reorganization of an enterprise could result in the dominant position of that enterprise or other economic entities or in some other restriction of competition on the commodity market, that enterprise (its founder) submits to the RSFSR Antitrust Committee or its regional branch appropriate documents justifying the need for the creation, liquidation, or reorganization. If there are objections, the RSFSR Antitrust Committee or its regional branch issues a documented notification of prohibition of the creation, liquidation or reorganization of enterprises within a period of 45 days from receipt of the documents.

If notification is not received from the RSFSR Antitrust Committee (regional branch) prohibiting the creation, liquidation, or reorganization of an enterprise within 60

days from the moment when the documents were sent, the latter are considered in conformity with the present law.

These enterprises are registered provided evidence is submitted of application to the RSFSR Antitrust Committee.

Article 25. Forced Division of Economic Entities

If economic entities occupying a dominant position on a commodity market engage in monopolistic activity or their actions bring about a substantial restriction of competition or disruption of normal operation of the commodity market, the RSFSR Antitrust Committee may decide on forced division of those economic entities.

The decision on forced division of economic entities is taken when the following conditions obtain:

- organizational and geographic separation of subdivisions (plants, shops);
- or absence of close technological interdependence of subdivisions (in particular, a share of internal turnover in the total volume of gross output of the economic entity amounting to less than 30 percent);
- or restriction of the spheres of activity of subdivisions within the limits of narrow product specialization to goods meeting a single need or a group of similar needs;
- or the absence of long-range plans for development of the economic entity as a unified whole, etc.

The decision of the RSFSR Antitrust Committee on forced division of economic entities is subject to execution within the period of time established by the RSFSR Antitrust Committee.

Article 26. Voluntary Division of Economic Entities

Withdrawal of a structural subdivision of an economic entity on the initiative of the work collective or some other division of the economic entity may be supported by the RSFSR Antitrust Committee (regional branch) if, while sufficient grounds exist for withdrawing from the economic entity, its subdivision cannot accomplish that action using other laws of the RSFSR.

Article 27. Appeal of Decisions of the RSFSR Antitrust Committee Prohibiting the Creation, Liquidation, or Reorganization of Economic Entities and Also Compelling Their Division

Decisions of the RSFSR Antitrust Committee prohibiting the creation, liquidation, or reorganization of economic entities or compelling their division may be appealed to the court or arbitration commission, respectively.

Section VII. Accountability for Violation of Antitrust Legislation

Article 28. Consequences of Violation of Antitrust Legislation

In case of violation of the prohibitions established in Sections II and III of this law, economic entities, government bodies and administrative agencies, and their officials are made accountable according to the procedure established by legislation:

- the RSFSR Antitrust Committee has a right to issue prescriptions for termination of the violation, restoration of the status quo ante, transfer of amounts of unjustifiably realized income into the respective budget and the Fund for Promotion of Antitrust Measures and Support of New Economic Structures, and for forced division of economic entities; and to impose a fine.

The court or arbitration commission has a right to exact damages within the limits of its competence.

Article 29. Grounds for Pronouncement of Fines

Fines are imposed for the following violations:

- on economic entities for unfair competition; for evasion of performance or for tardy performance of a prescription of the RSFSR Antitrust Committee (regional branch) to terminate violations or to restore the status quo ante, or concerning forced division—in an amount not to exceed 500,000 rubles;
- on officials of government bodies and administrative agencies and economic entities guilty of evading performance or tardy performance of prescriptions—in an amount not to exceed 1,000 rubles.

The fines are to be credited to the republic or local budget.

Article 30. The Economic Entity's Reimbursement of Losses Inflicted by a Monopolistic Activity and Unfair Competition

An economic entity that has violated antitrust legislation reimburses the economic entity that has been injured by monopolistic activity or unfair competition losses in accordance with the procedure established by legislation.

Article 31. Recovery of Damages Incurred by Economic Entities Through Unlawful Acts of Government Bodies and Administrative Agencies

If an economic entity has incurred losses because of an act of a government body and administrative agency taken in violation of antitrust legislation, that entity is entitled to take action with the court or arbitration committee for recovery of those losses from the government body and administrative agency.

Article 32. Release of Economic Entities From Accountability for Violation of Antitrust Legislation

Economic entities and their officials are altogether or partially relieved of accountability for violation of this law if their monopolistic activity resulted from acts of government bodies and administrative agencies adopted in violation of legislation.

In this case, the contracting party of the economic entity who has incurred losses has a right to file action with the court or arbitration commission for reimbursement from the government body and administrative agency whose enactment resulted in the violation of antitrust legislation.

Section VIII. Examination of Cases of Violations of Antitrust Legislation by the RSFSR Antitrust Committee

Article 33. Grounds for Examination of Cases of Violations of Antitrust Legislation

The RSFSR Antitrust Committee takes up cases of violations of antitrust legislation on the basis of petitions of economic entities, the USSR Trade and Industrial Chamber, government bodies and administrative agencies, consumer societies and unions, and other public organizations.

The procedure for consideration of cases is determined by the rules established by the RSFSR Antitrust Committee.

Article 34. The Filing and Examination of Petitions

Petitions are filed with the RSFSR Antitrust Committee in writing, to which documents providing evidence of cases of violation of antitrust legislation are appended.

The content of the petitions and documents are not to be divulged.

Decisions are made on the basis of an examination of the case.

Section IX. Procedure for Appealing Decisions of the RSFSR Antitrust Committee

Article 35. Procedure for Protesting Prescriptions of the RSFSR Antitrust Committee

Government bodies and administrative agencies and economic entities have a right to address to the court or arbitration commission, respectively, a petition for declaration of the complete or partial invalidity of prescriptions of the RSFSR Antitrust Committee adopted in violation of legislation.

The petitions are examined by the court—according to the procedure envisaged by the civil procedural code of the RSFSR for action on cases arising out of relations in administrative law, and by the arbitration commission according to the procedure established for examining petitions for declaration of the invalidity of acts of government bodies and administrative agencies.

Article 36. Procedure for Appealing Decisions of the RSFSR Antitrust Committee Imposing Fines

Economic entities have a right to appeal to the court or arbitration commission, respectively, with petitions to revoke or modify decisions of the RSFSR Antitrust Committee imposing fines.

Officials appeal a decision imposing a fine on them according to the procedure established by legislation concerning administrative accountability.

Draft Regulation on the Fund for Economic Stabilization of the USSR

Section I. General Provisions

1. The Fund for Economic Stabilization of the USSR (hereinafter—the Fund) is a state institution whose purpose is to mitigate the consequences of the transition to a market economy and to support enterprises which have the greatest importance to carrying on the life of the population and maintaining the continuity of economic processes.

2. The Fund is created by the USSR president as an independent institution guided in its activity by the present regulation. The activity of the Fund is guaranteed by the Government of the USSR.

Analogous funds may be created in the union republics.

3. The director of the Fund is appointed by the USSR president.

4. The Fund remains in operation until 1 January 1992; the USSR president may extend its powers by no more than 1 additional year.

Section II. Tasks and Functions of the Fund

5. The Fund is called upon to perform the following tasks:

- to mitigate the adverse effect on state enterprises and institutions of the rise in interest rates, the reduction of budget appropriations, and the disappearance of guaranteed supplies and sales;
- to prevent the bankruptcy or sharp reduction of the volume of production of state enterprises.

6. In order to perform the tasks which have been set it, the Fund has the following rights:

- to subsidize enterprises;
- to subsidize the taking of credits;
- to guarantee credits of commercial banks;
- to grant repayable credits at a preferential rate of interest;
- to buy stocks and shares of enterprises;
- to participate in reorganization of enterprises;
- to take over the assets and liabilities of enterprises.

Section III. Sources of the Fund's Resources

7. The Fund's financial resources are as follows:

- earmarked budget appropriations;
- proceeds from the sale of the Fund's medium-term bonds;
- proceeds from the Fund's lotteries; 5 percent of the revenues of budgets at all levels from privatization of state property;

- 25 percent of the additional income of banks from raising interest rates over the period from 1 January to 1 October 1991;
- donations of Soviet and foreign institutions and individuals.

8. The Fund is exempted from all forms of taxes, levies, and duties.

Section IV. The Fund's Activity

9. The management of the Fund has the exclusive right to dispose of the resources in its possession without consent from any government bodies whatsoever.

10. The Fund takes under consideration only applications of cost-accounting (khozraschetnyy) state enterprises directly addressed to the Fund and justified in detail.

11. The Fund does not take under consideration unsubstantiated applications, applications from budget-financed, cooperative, and public organizations, nor applications forwarded from other institutions.

12. The Fund satisfies or refuses to satisfy the requests within 2 weeks, without explaining the reasons.

13. The Fund may request from the applicant any information necessary for making the decision.

14. The specific form of the Fund's aid may be contingent upon the following conditions:

- reorganization of the enterprise (including conversion to a joint-stock company);
- discharge of particular managers;
- reduction of the size of the staff;
- sale of excess inventories of merchandise and supplies;
- reduction of nonproduction costs;
- partial reorientation of the line of business;
- division of the enterprise.

15. The Fund's staff consists of highly qualified specialists and experts in various specialties detached by state institutions or hired on a contract basis.

16. State agencies at all levels provide aid to the Fund in detaching specialists at its request and in performing its functions.

Section V. Liquidation of the Fund

17. The Fund is liquidated at the end of the life of its authority.

18. The Fund's claims and obligations pass to the USSR Ministry of Finance for final settlement.

Draft Bases of Legislation of the Union of SSR and of the Union Republics on Employment of the Population

Title I. General Provisions

Article 1. Obligation of the State To Furnish Employment

The state guarantees exercise of the right of citizens to work, which has been set down in the USSR Constitution, including the right to free choice of occupation, type of employment, and place of work, regardless of race, color of skin, sex, religion, age, political convictions, nationality, and social origin.

No administrative coercion to work is permitted in any form except in the cases envisaged by legislation.

The state bears responsibility for conducting the policy of full and productive employment of the population.

Article 2. Basic Principles of the Policy of the State in the Area of Employment

1. Policy in the area of employment of the population is premised upon the priority of the working way of life of the citizen and is an exceedingly important and inseparable part of the state's socioeconomic policy.

2. The basic principles of the policy of the state in the area of employment are as follows:

- guaranteeing equal opportunities to all able-bodied citizens to exercise the right to work;
- the granting of social guarantees in the area of employment and the furnishing of protection of citizens against unemployment;
- the performance of specific measures facilitating employment of citizens who have experienced particular difficulties in looking for steady work;
- combination of centralized measures to solve the most important nationwide problems of employment with the independence of the union (autonomous) republics and ispolkoms of local soviets of people's deputies in guaranteeing the employment of the population;
- broad participation of the trade unions of the USSR and associations (unions) of entrepreneurs in drafting, implementing, and following up measures to guarantee employment on the basis of cooperation with state administrative agencies;
- international cooperation in solving the problem of unemployment.

Article 3. State Guarantees of the Right To Work

1. The state guarantees citizens the following:

- free general education and occupational training. The procedure for providing it is determined by legislation of the Union of SSR and the union (autonomous) republics;

- the voluntary nature of work, in accordance with which employment is based on free expression of the citizen's will;
- freedom of choice of type of occupation and of job in accordance with vocation, abilities, occupational training, and education;
- assistance in job placement in accordance with calling, abilities, occupational training, and education by all accessible means, including vocational guidance and retraining, and the activity of the state employment service;
- furnishing of work in enterprises, organizations, and institutions in the state sector of the economy (at the union, republic, and local levels) thanks to creation of additional jobs when other possibilities of job placement have been exhausted;
- protection against unjustified refusal to hire and discharge and also assistance in keeping a job.

2. In case of loss of work, the state guarantees citizens the following:

- payment of severance benefit and retention of the average wage over the period of job placement according to established procedure for workers who have lost permanent jobs in enterprises, institutions, and organizations because of reduction of the size of the work force or staff, lack of qualifications for the position occupied or work done, or in connection with reorganization and liquidation of enterprises, institutions, and organizations;
- free training in a new occupation, improvement of qualifications in specialized centers of the system of the state employment service or in other educational institutions with payment of a scholarship;
- compensation of expenses involved in moving to another place, to a new place of residence and a new job by assignment of the state employment service;
- opportunity to participate in public projects and to receive remuneration at least as great as the unemployment benefit;
- payment of unemployment benefit in accordance with established procedure for citizens who have been laid off, material assistance to family members who are dependent, and other forms of assistance;
- inclusion in pensionable service of the period of training, participation in public projects, and also receipt of the unemployment benefit.

Article 4. Additional Guarantees of Employment

The state grants additional guarantees to individuals experiencing difficulties in finding work and unable to compete on the labor market on an equal footing, including women who have minor children, young people, disabled persons, persons just before retirement, persons who have not worked for a lengthy period of time, persons released from incarceration, and forced migrants, by creating additional jobs, by stimulating employers to hire these individuals, by organizing special training programs, and through other measures.

Article 5. Employment Legislation

Employment relations in the USSR are regulated by these Bases and other legislative acts of the Union of SSR and of the union (autonomous) republics issued in accordance with them, as well as by collective agreements (contracts).

Title II. Employment of Individuals

Article 6. The Term Employment

Employment is the socially useful activity of individuals involving satisfaction of personal and social needs and bringing them income.

Article 7. The Employed Labor Force

The employed labor force includes all able-bodied citizens who:

- are working for remuneration either fulltime or part-time (part day or part week);
- have a job for which they are paid, confirmed by the appropriate document, but who are temporarily absent because of illness, vacation, improvement of qualifications (retraining), temporary stoppage of production, strike, or other reasons;
- independently provide work for themselves (self-employment, including enterprise, work on a personal subsidiary farm or private peasant farm, and other forms of activity);
- are doing military service.

Article 8. The Unemployed

The unemployed are able-bodied citizens who are not employed in social production and do not have earnings because they are unable to find a suitable job and are actively looking for work and registered with the state employment service.

The procedure for registering individuals as unemployed is defined by the legislation of the union (autonomous) republics and by collective agreements (contracts) in the context of these Bases.

Title III. Regulation of Employment

Article 9. Measures To Regulate Employment

1. State policy in the area of employment is conducted by means of economic, organizational, and legal measures.
2. The economic measures envisage measures of financial-and-credit policy, investment policy, and tax policy aimed at optimum location of the productive forces, increased mobility of the workers, creation of new technologies, incentives for the development of small enterprises and flexible work schedules, improvement of the status of the service sector, and other measures helping to preserve and develop the system of jobs.
3. Organizational measures include creation of the State Employment Service and forming its material base, personnel, information support, and financial basis;

improvement of its structure; conduct of scientific research; and the drafting of employment programs.

4. Legal measures aim at preserving and promoting employment by guaranteeing the working rights and interests of workers, by extending to them guarantees, by creating favorable conditions in the workplace, and through further improvement of labor legislation.

5. The state promotes the shaping of public opinion concerning the right to work as society's highest value, concerning the need to improve the competitiveness of every worker on the labor market as a most important condition for conducting a policy of full employment.

6. Measures taken in practice to regulate employment are defined at the local, republic, and union levels so as to take into account the socioeconomic situation that has come about in accordance with legislation of the Union of SSR and the union (autonomous) republics, with collective agreements (contracts) and the present Bases.

Article 10. Coordinating Committees for Promotion of Employment

Coordinating committees for promotion of employment, whose members are representatives of the trade unions, associations of employers, and state administrative agencies, are formed at the union, republic, and local levels in order to work out coordinated solutions in the area of conducting employment policy. Representatives of employers and trade unions are appointed to membership of these committees in equal numbers after agreement with the organizations representing them.

Article 11. The State Employment Service

The state employment service is created to implement the policy of employment of the population and to furnish individuals the relevant guarantees over the entire territory of the USSR.

The activity of the state employment service at the union, republic, and local levels is performed under the guidance of the appropriate bodies of government in close interaction with the coordinating committees for promotion of employment.

Services rendered by the state employment service to the public and to employers are furnished without payment.

Article 12. Rights and Duties of the Employment Service

1. The state employment service is required:
 - to analyze the supply and demand for manpower, to disseminate information about the state of the labor market;
 - to keep records of job vacancies and individuals applying for job placement;
 - to provide consultation to workers and economic managers (employers) applying to the employment service concerning the possibilities of obtaining work

and of furnishing manpower, concerning the requirements which must be met by occupations, and concerning other matters that seem useful to promote full employment;

- to provide assistance to workers in seeking appropriate work and assistance to employers in seeking appropriate workers;
- to organize vocational training, retraining, and improvement of the qualifications of individuals in the system of the employment service or other educational institutions; to provide assistance in the development and determination of the subject matter of training and retraining courses;
- to render services in job placement and vocational guidance to workers laid off and to the unemployed population;
- to register the unemployed and to provide them aid within the limits of its competence, including payment of benefits;
- to organize the drafting of nationwide, republic, oblast (kray), city, and rayon employment programs and measures for protection of the social welfare of various population groups;
- to assist enterprises, organizations, and institutions in solving problems that are related to ensuring employment of the population.

2. The state employment service has the following rights:

- to request of all enterprises, organizations, and institutions information concerning their financial condition, possible liquidation (reorganization), proposed structural changes, major retooling projects, and other measures which could result in workers being laid off from existing production and also the existence of job vacancies;
- to send to all enterprises, organizations, and institutions individuals for job placement in accordance with their level of qualifications, occupational training, and education when appropriate job vacancies exist there;
- to send to all enterprises, organizations, and institutions for job placement disabled persons, young people, women with minor children, persons released from imprisonment on the basis of the minimum number of jobs set aside for this category of workers by the local soviet of people's deputies;
- to organize public projects if necessary, jointly with local administrative agencies and enterprises;
- to dispose of the fund for promotion of employment in accordance with established procedure;
- to collect fines paid into the fund for promotion of employment and collect it from enterprises for evasion without objective cause of the job placement of citizens sent by the employment service in accordance with the procedure and number determined by legislation of the union republic.

Article 13. Participation of Enterprises in Implementing State Employment Policy

1. Enterprises, institutions, and organizations (hereinafter—enterprises) performing their activity over the territory of the Union of SSR promote the conduct of state employment policy on the basis of the following:

- performance of the terms and conditions of contracts (agreements) regulating employment relations in accordance with legislation of the Union of SSR and union (autonomous) republics;
- creation of conditions for vocational training, retraining, and improvement of the qualifications of workers;
- job placement of the number of persons determined by the local soviet of people's deputies experiencing difficulty in seeking work and unable to compete on the labor market on an equal footing;
- creation of special jobs and working conditions for disabled persons;
- furnishing information about the existence of job vacancies and about possible layoffs of workers, including a written presentation of the grounds for the layoff, the number and categories of workers who might be affected, and the period of time during which it is to be carried out. This information is also supplied to the state employment service by the trade union body for the purpose of holding consultations and adopting prompt measures to prevent layoffs (or minimize them) and to mitigate the adverse consequences of any layoff.

2. Enterprises must create special jobs for disabled persons in a number equal to at least 2 percent of the total number of jobs. Should this requirement not be met or should it be impossible to create jobs for disabled persons on production grounds or for other reasons, the state employment service collects penalties from enterprises in the amount of the average wage of workers of enterprises for each job that was not organized. The amounts collected are credited to the fund for promotion of employment to promote job placement of disabled persons.

Losses of employers related to creation of additional jobs for disabled persons over and above the established minimum and also the training and retraining of this category of persons may be compensated from the state employment fund.

3. Enterprises must hire the number of persons specified by soviets of people's deputies whom the state has furnished additional employment guarantees (women with minor children, young people, persons about to retire, persons who have not worked for a long time, persons released from prison, and forced migrants) providing the job vacancies at the enterprise correspond to the vocational training these persons have received.

The USSR Council of Ministers, councils of ministers of union (autonomous) republics, and ispolkoms of local soviets of people's deputies extend benefits related to payments into the union, republic, and local budgets (all the way to full exemption of payments) for the hiring of these individuals who are in need of social welfare.

Article 14. Organizing Public Projects

On the initiative and with the participation of employment services, local soviets of people's deputies may organize for the unemployed public projects at enterprises which they own and under contract at other enterprises.

A contract is concluded with the unemployed who want to participate in the public projects to perform the public projects for a period up to 2 months with the right of extension. Those employed in public projects do not receive unemployment benefits if the remuneration in the new job is larger than the benefit. General social guarantees, including the right to pension coverage and payment during illness, extend to those employed on public projects.

The public projects are financed by state employment services.

Article 15. The State Fund for Promotion of Employment

The state fund for promotion of employment is created at the local, republic, and union levels in order to finance measures in the area of employment policy.

The state employment fund is formed from the resources of the union, republic, and local budgets, respectively, as well as from voluntary donations and other receipts. The size of appropriations made from the union, republic, and local budgets to form funds for promotion of employment are determined by soviets of people's deputies when they approve their budgets in a proportion of at least 1 percent.

The principal purposes of expenditure of the state employment fund are determined by the coordinating committees for promotion of employment.

Disbursement of the resources of the state fund for promotion of employment lies in the jurisdiction of the state employment service.

Title IV. Compensation for Loss of Work

Article 16. Types of Compensation

The state furnishes those who have lost their job the following compensation in accordance with established procedure:

- material payments related to moving to another place, to a new place of residence and new job, by assignment of the state employment service;
- stipends during the period of improvement of qualification or retraining;
- unemployment benefit;
- material assistance to family members dependent upon the unemployed person, and other types of assistance.

Article 17. The Stipend During the Period of Vocational Training

During the period of improvement of qualification or retraining, unemployed persons are paid a stipend as follows:

- a) 100 percent of the average wage in the unemployed person's last job if he had continual longevity of at least 12 weeks in the course of the 12 months preceding the beginning of unemployment;
- b) 100 percent of the average wage in the last job regardless of longevity if the loss of job occurred because of an accident in the workplace or the onset of an occupational disease;
- c) 50 percent of the average wage in the union republic for those seeking work for the first time or who have not worked for a long time.

The unemployed receive vocational training in centers for retraining individuals of the state employment service and other educational institutions in cases when:

- it is impossible to find work because the unemployed person does not have vocational qualifications;
- qualifications have to be changed because of the lack of work corresponding to the professional skills the unemployed person possesses;
- the person has lost the ability to do the work in his previous occupation.

The unemployed receive training and retraining at the expense of the funds envisaged for that purpose in the budget of the fund for promotion of employment.

Article 18. Unemployment Benefit

1. The right to an unemployment benefit is extended to able-bodied citizens from age 16 until they qualify for a pension and who are duly declared to be unemployed. This right is also acquired by individuals seeking work for the first time or trying to resume employment activity after a long interruption.

2. The employment benefit is paid from the time an individual registers as unemployed and continues until the problem of job placement is solved, but not to exceed 12 months.

The period for payment of the unemployment benefit may be increased to 24 months for persons of near-pension age.

3. Individuals entitled to receive the unemployment benefit are guaranteed its payment in an amount not less than the following:

a) 50 percent of the average wage in the last job provided the individual has had paid work for at least 12 weeks during the 12 months preceding registration as an unemployed person. If the job was lost because of an accident in the workplace or the onset of an occupational disease, the benefit is paid regardless of longevity.

The size of the unemployment benefit must not be less than the minimum wage established by legislation of the Union of SSR, but must not be greater than the average wage in the union republic;

b) 75 percent of the minimum wage—in all other cases, including individuals seeking work for the first time.

Individuals who have completed vocational training in educational institutions (full-time study) and also those discharged from the Armed Forces have the right to receive the benefit in the amount of the minimum wage.

4. Payment of the unemployment benefit may be suspended for a period not to exceed 3 months or its amount may be reduced in the following cases:

- a) the individual is paid a severance benefit and other payments related to discharge;
- b) discharge from the previous place of work was at his own desire and without good cause;
- c) discharge because of an intentional violation of work discipline and other premeditated violations.

5. If the unemployed person has refused two offers of suitable employment without good cause within 30 days, he may be entirely or partially deprived of the benefit for a period up to 1 year.

6. Unemployment benefits are paid from the resources of the republic and local funds for promotion of employment.

7. Legislation of the union (autonomous) republics and also collective agreements (contracts) may envisage an increase in the amount of unemployment benefits and also measures to protect workers in case of partial unemployment and suspension of production, including the payment of benefits to part-time workers (part day or part week) seeking a full-time (full day or week) job.

Article 19. Material Assistance

1. Material assistance or other aid, including subsidies for the use of housing, municipal utilities and services, and public transport is extended to dependent family members of the unemployed persons and also to individuals who no longer qualify for the unemployment benefit because the established period of its payment has expired.

2. The procedure and conditions for providing material and other assistance are defined by the legislation of the union (autonomous) republics and collective agreements (contracts).

Article 20. Suitable Work

1. A job is considered suitable if it is in line with the worker's occupational training, in view of his age, longevity, and experience in his previous specialty and the accessibility of the new job with respect to transportation.

A job is not considered suitable if:

- it is offered in an area where the housing conditions and other residential conditions are less favorable than those which the worker had before he applied to the employment service;
- it is quite far from the permanent place of residence;

- the wage and other working conditions are less than the average level in the given specialty (occupation);
- rejection of it is justified on other grounds, in particular the personal and family situation of the worker.

2. Legislation of the union (autonomous) republics and a decision of the local soviet of people's deputies may also establish other criteria as to the suitability of a job, strengthening the social protection of the workers.

Title V. Employment and the Trade Unions

Article 21. Participation of the Trade Unions in Promotion of Full and Efficient Employment

1. The trade unions take part in working out state employment policy, the relevant legislative enactments of the Union of SSR and the union (autonomous) republics and the decisions of local soviets of people's deputies.

2. State administrative agencies, economic authorities, and trade unions regularly conduct joint consultations on problems of employment. Collective agreements (contracts) may be concluded according to their results to include measures aimed at promotion and preservation of employment, protection of persons laid off, and also protection of special groups of workers, obligations on the part of state administrative agencies to supply information on the economic and financial conditions for conduct of the policy of employment, and other matters affecting the interests of the workers in the area of employment.

Title VI. Monitoring and Accountability for Violation of Legislation on Employment of the Population

Article 22. Monitoring Implementation of Legislation on Employment

The following exercise state oversight concerning the observation of legislation on employment:

- the USSR General Procurator and procurators subordinate to him;
- soviets of people's deputies and the state employment service;
- trade unions and also the legal labor inspectorate under their jurisdiction.

Article 23. The Right To Appeal Unlawful Acts of the State Employment Service

The individual is entitled to appeal unlawful actions by personnel of the employment service to its superior body and also through the courts according to the procedure established by legislation.

Article 24. Accountability for Violation of Legislation on Employment

Disciplinary, financial, administrative, or criminal accountability may be established for violation of legislation on employment by legislation of the Union of SSR and of the union (autonomous) republics.

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